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Accounting Trends & Techniques

60th

SIXTIETH EDITION

2006

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA®

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

Accounting Trends & Techniques
SIXTIETH EDITION 2006
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60th

SIXTIETH EDITION

2006

Sixtieth annual cumulative survey of the accounting aspects of the annual reports of 600 industrial, merchandising, technology, and service corporations. The reports analyzed are those with fiscal years ended not later than February 3, 2006.

Edited by

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Dedication

Since 1982, Anthony Tarallo has been a valued and well respected member of the ***Accounting Trends & Techniques*** *team, assisting in both the analysis of the financial reports and preparation of the manuscript. Sadly, Tony passed away earlier this year. The members of the Accounting and Auditing Publications group wish to dedicate this Sixtieth Edition to Tony's memory. We all miss you.*

Acknowledgments

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Preface

Accounting Trends & Techniques—2006, Sixtieth Edition (the current edition), is a compilation of data obtained by a survey of 600 annual reports to stockholders undertaken for the purpose of analyzing the accounting information disclosed in such reports. The annual reports surveyed were those of selected industrial, merchandising, technology, and service companies for fiscal periods ending between February 25, 2005 and February 3, 2006.

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

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

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Each of the 600 survey companies included in the current edition has been assigned a company reference number which is used for reference in the discussion of pertinent information. Companies not included from the prior edition were eliminated because of a business combination with another company or a delisting by the SEC. The identification numbers of the eliminated companies have not been reused. Over the years, company reference numbers 601 through 1148 have been assigned to the replacement companies. In the current edition, company reference numbers 1149 through 1178 have been assigned to additional replacement companies. The 600 companies in the current edition are listed in the *Appendix of 600 Companies* both alphabetically and by company reference number.

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

Robert Durak, CPA, Director—Accounting & Auditing Publications
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Section 1: General

COMPANIES SELECTED FOR SURVEY

1.01 This section is concerned with general information about the 600 companies selected for the survey and with certain accounting information usually disclosed in notes accompanying the basic financial statements.

1.02 All 600 companies included in the survey are registered with the Securities and Exchange Commission (SEC). Many of the survey companies have securities traded on one of the major stock exchanges—81% on the New York and 2% on the American. The remaining 17% were traded on "over-the-counter" exchanges.

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

1.04

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	2005	2004
Advertising, marketing	2	2
Aerospace	17	17
Apparel	13	15
Beverages	10	10
Building materials, glass	8	8
Chemicals	27	27
Computer and data services	20	17
Computer peripherals	7	8
Computer software	11	9
Computers, office equipment	11	11
Diversified outsourcing services	11	10
Electronics, electrical equipment	43	42
Engineering, construction	14	12
Entertainment	10	7
Food	23	23
Food and drug stores	17	16
Food services	10	9
Forest and paper products	19	20
Furniture	11	10
General merchandisers	9	10
Health care	11	10
Homebuilders	7	4
Hotels, casinos, resorts	6	7
Industrial and farm equipment	36	36
Medical products and equipment	12	13
Metal products	18	19
Metals	15	15
Mining, crude-oil production	12	14
Miscellaneous	5	6
Motor vehicles and parts	14	15
Network communications	6	7
Petroleum refining	14	14
Pharmaceuticals	10	10
Publishing, printing	21	21
Rubber and plastic products	7	7
Scientific, photographic, and control equipment	19	19
Semiconductors	14	14
Soaps, cosmetics	7	7
Specialty retailers	18	18
Telecommunications	12	16
Temporary help	5	5
Textiles	4	4
Tobacco	5	6
Toys, sporting goods	2	2
Transportation equipment	4	4
Trucking, truck leasing	5	5
Waste management	3	3
Wholesalers	15	16
Total Companies	**600**	**600**

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

1.06

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	2005	2004	2003	2002
Less than $100,000,000	21	16	23	23
Between $100,000,000 and $500,000,000	34	40	41	44
Between $500,000,000 and $1,000,000,000	35	43	52	55
Between $1,000,000,000 and $2,000,000,000	103	105	110	128
Between $2,000,000,000 and $3,000,000,000	80	82	77	64
Between $3,000,000,000 and $4,000,000,000	44	42	42	46
Between $4,000,000,000 and $5,000,000,000	34	39	43	40
Between $5,000,000,000 and $10,000,000,000	99	93	91	84
More than $10,000,000,000	150	140	121	116
Total Companies	**600**	**600**	**600**	**600**

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

1.07 Rule 14a-3, *Information to Be Furnished to Security Holders*, of the Securities Exchange Act of 1934, states that annual reports furnished to stockholders in connection with the annual meetings of stockholders should include audited financial statements—balance sheets as of the 2 most recent fiscal years, and statements of income and of cash flows for each of the 3 most recent fiscal years. *Rule 14a-3* also states that the following information, as specified in Securities and Exchange Commission (SEC) Regulation S-K, *Standard Instructions for Filing Forms Under the Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975*, should be included in the annual report to stockholders:

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

1.08 Examples of items 1, 3, 8, and 9 follow. Included with the item 8 examples are excerpts from management's discussion and analysis as to forward looking information, liquidity and capital resources, new accounting standards, and critical accounting policies.

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

Quarterly Financial Data

1.10

BELLSOUTH CORPORATION (DEC)

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

Note S: Quarterly Financial Information (Unaudited)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2004					
Operating revenues	$4,976	$5,083	$5,095	$5,146	$20,300
Operating income	1,358	1,442	1,401	1,088	5,289
Provision for income taxes	623	516	465	188	1,792
Income from continuing operations	1,150	939	852	453	3,394
Net income	$1,599	$ 996	$ 799	$1,364	$ 4,758
Basic earnings per share[(a)]:					
Income from continuing operations	$ 0.63	$ 0.51	$ 0.47	$ 0.25	$ 1.85
Net income	$ 0.87	$ 0.54	$ 0.44	$ 0.74	$ 2.60
Diluted earnings per share[(a)]:					
Income from continuing operations	$ 0.63	$ 0.51	$ 0.46	$ 0.25	$ 1.85
Net income	$ 0.87	$ 0.54	$ 0.44	$ 0.74	$ 2.59
Total comprehensive income	$1,713	$1,007	$ 789	$1,677	$ 5,186
2005					
Operating revenues	$5,091	$5,142	$5,072	$5,242	$20,547
Operating income	1,352	1,350	971	997	4,670
Provision for income taxes	354	394	392	249	1,389
Income from continuing operations	683	795	817	618	2,913
Net income	$1,064	$ 795	$ 817	$ 618	$ 3,294
Basic earnings per share[(a)]:					
Income from continuing operations	$ 0.37	$ 0.43	$ 0.45	$ 0.34	$ 1.60
Net income	$ 0.58	$ 0.43	$ 0.45	$ 0.34	$ 1.81
Diluted earnings per share[(a)]:					
Income from continuing operations	$ 0.37	$ 0.43	$ 0.44	$ 0.34	$ 1.59
Net income	$ 0.58	$ 0.43	$ 0.44	$ 0.34	$ 1.80
Total comprehensive income	$1,141	$ 805	$ 859	$ 632	$ 3,437

[(a)] Due to rounding, the sum of quarterly earnings per share amounts may not agree to year-to-date earnings per share amounts.

The quarters shown were affected by the items listed below. These items are specific to net income.

2004

- First quarter included a gain related to the sale of our operations in Denmark, which increased net income by $295, or $0.16 per share.
- First quarter also included a charge for a settlement with the South Carolina Consumer Advocate, which decreased net income by $33, or 0.02 per share.
- We recorded losses related to service repairs in the wireline business due to Hurricanes Charley, Frances, Ivan and Jeanne, which reduced net income by $23, or $0.01 per share in the third quarter and by $77, or $0.04 per share, in the fourth quarter.
- Our equity in earnings from Cingular Wireless included losses related to wireless merger integration costs for the Cingular Wireless/AT&T Wireless merger, a fair value adjustment for the sale of Cingular Wireless Interactive, and lease accounting adjustments, which reduced our net income by $17, or $0.01 per share, in the third quarter and by $92, or $0.05 per share in the fourth quarter. In addition, our equity in earnings from Cingular Wireless included amortization of intangibles, primarily customer lists, that were acquired as part of Cingular's merger with AT&T Wireless. These charges reduced our net income by $80, or $0.04 per share, in the fourth quarter.

- Fourth quarter also included charges related to severance and lease termination payments, which reduced net income by $18, or $0.01 per share.
- We recorded income (losses) related to our Discontinued Operations which impacted net income by $449, or $0.24 per share, in the first quarter; by $57, or $0.03 per share, in the second quarter; by $(53), or $(0.03) per share, in the third quarter; and by $911, or $0.50 per share, in the fourth quarter.

2005

- First quarter included income of $381, or $0.21 per share, related to our Discontinued Operations.
- We recorded charges related to the early extinguishment of debt, which reduced net income by $14, or $0.01 per share, in the first quarter and $12, or $0.01 per share, in the second quarter.
- Third quarter included a gain related to the sale of our operations in Israel, which increased net income by $228, or $0.12 per share.
- We recorded losses related to asset impairments and service repairs in the wireline business due to Hurricane Katrina, which reduced net income by $177, or $0.10 per share, in the third quarter and by $145, or $0.08 per share, in the fourth quarter.
- Our equity in earnings from Cingular Wireless included losses related to wireless merger integration costs for the Cingular Wireless/AT&T Wireless merger and hurricane costs, which reduced our net income by $21, or $0.01 per share, in the first quarter, $42, or $0.02 per share, in the second quarter, $79, or $0.04 per share, in the third quarter, and $82, or $0.05 per share, in the fourth quarter. In addition, our equity in earnings from Cingular Wireless included amortization of intangibles, primarily customer lists, that were acquired as part of Cingular's merger with AT&T Wireless. These charges reduced our net income by $100, or $0.05 per share, in the first quarter, $91, or $0.05 per share, in the second quarter, $94, or $0.05 per share, in the third quarter, and $90, or $0.05 per share, in the fourth quarter.
- Fourth quarter included a deferred revenue adjustment that corrected a system coding error that was resulting in underreporting revenues in prior periods. The adjustment increased net income by $29, or $0.02 per share.
- Fourth quarter also included charges related to severance, which reduced net income by $59, or $0.03 per share.

1.11

EASTMAN CHEMICAL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Quarterly Sales and Earnings Data–Unaudited

(Dollars in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Sales	$1,762	$1,752	$1,816	$1,729
Gross profit	399	374	352	279
Asset impairment and restructuring charges	9	10	4	10
Net earnings	162	206	123	66
Net earnings per share(1)				
Basic	$ 2.04	$ 2.55	$ 1.51	$ 0.81
Diluted	$ 2.00	$ 2.51	$ 1.50	$ 0.81
2004				
Sales	$1,597	$1,676	$1,649	$1,658
Gross profit	235	270	257	216
Asset impairment and restructuring charges	67	79	42	18
Net earnings (loss)	(6)	84	38	54
Net earnings (loss) per share(1)				
Basic	$ (0.07)	$ 1.08	$ 0.50	$ 0.69
Diluted	$ (0.07)	$ 1.07	$ 0.49	$ 0.68

(1) Each quarter is calculated as a discrete period; the sum of the four quarters may not equal the calculated full-year amount.

Selected Information for Five Years

1.12

HARRIS CORPORATION (JUN)

SELECTED FINANCIAL DATA

The following table summarizes our selected historical financial information for each of the last five fiscal years. All amounts presented have been restated on a continuing operations basis. Discontinued operations are more fully discussed in *Note 2: Discontinued Operations* in the Notes to Consolidated Financial Statements. The selected financial information shown below has been derived from our audited consolidated financial statements, which for data presented for fiscal years 2005 and 2004 are included elsewhere in this Annual Report on Form 10-K. This table should be read in conjunction with our other financial information, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes to Consolidated Financial Statements, included elsewhere in this Annual Report on Form 10-K.

(In millions, except per share amounts)	2005(1)	2004(2)	2003(3)	2002(4)	2001(5)
Revenue from product sales and services	$3,000.6	$2,518.6	$2,060.6	$1,835.8	$1,871.0
Cost of product sales and services	2,176.8	1,888.3	1,543.2	1,353.4	1,384.8
Interest expense	24.0	24.5	24.9	26.7	34.8
Income from continuing operations before income taxes	298.4	180.0	108.2	131.7	78.8
Income taxes	96.2	54.3	37.9	44.7	53.3
Income from continuing operations	202.2	125.7	70.3	87.0	25.5
Discontinued operations net of income taxes	—	7.1	(10.8)	(4.4)	(4.1)
Net income	202.2	132.8	59.5	82.6	21.4
Average shares outstanding (diluted)	141.3	140.3	138.0	132.7	133.9
Per share data (diluted):					
Income from continuing operations	1.46	.92	.53	.66	.19
Discontinued operations	—	.05	(.08)	(.04)	(.03)
Net income	1.46	.97	.45	.62	.16
Cash dividends	.24	.20	.16	.10	.10
Net working capital	727.4	994.9	847.1	694.8	721.8
Net plant and equipment	307.8	283.3	281.6	262.1	272.2
Long-term debt	401.4	401.4	401.6	283.0	384.4
Total assets	2,457.4	2,225.8	2,075.3	1,855.4	1,951.9
Shareholders' equity	1,439.1	1,278.8	1,183.2	1,149.9	1,115.2
Book value per share	10.83	9.64	8.91	8.67	8.47

(1) Results for fiscal 2005 include a $7.0 million after-tax ($.05 per diluted share) charge related to a write-off of in-process research and development costs and impairment losses on capitalized software development costs associated with our acquisition of Encoda, a $6.4 million after-tax ($.05 per diluted share) write-down of our passive investments due to other-than-temporary impairments, a $5.7 million after-tax ($.04 per diluted share) gain related to our execution of a patent cross-licensing agreement and a $3.5 million after-tax ($.02 per diluted share) income tax benefit from the settlement of a tax audit.

(2) Results for fiscal 2004 include an $8.1 million after-tax ($.06 per diluted share) charge related to cost-reduction actions taken in our Microwave Communications and Broadcast Communications segments, a $5.8 million after-tax ($.04 per diluted share) loss and a $4.4 million after-tax ($.03 per diluted share) gain in two unrelated patent infringement cases, a $3.4 million after-tax ($.02 per diluted share) write-down of our interest in Teltronics, Inc., a $3.0 million after-tax ($.02 per diluted share) gain from the reversal of a previously established reserve for the consolidation of our Broadcast Communications segment's European operations and a $3.3 million after-tax ($.02 per diluted share) income tax benefit from the settlement of a foreign tax audit.

(3) Results for fiscal 2003 include a $12.2 million after-tax ($.09 per diluted share) gain on the sale of our minority interest in our LiveTV, LLC joint venture, a $5.6 million after-tax ($.04 per diluted share) write-down of inventory related to our exit from unprofitable products and the shutdown of our Brazilian manufacturing plant in our Microwave Communications segment, an $8.1 million after-tax ($.06 per diluted share) charge related to our disposal of assets remaining from our telecom switch business and a $10.8 million after-tax ($.08 per diluted share) charge for cost-reduction measures taken in our Microwave Communications and Broadcast Communications segments as well as our corporate headquarters.

(4) Results for fiscal 2002 include a $10.4 million after-tax ($.08 per diluted share) charge in our Microwave Communications segment related to cost-reduction actions taken in its international operations and collection losses related to the bankruptcy of a customer in Latin America, a $6.8 million after-tax ($.05 per diluted share) gain on the sale of our minority interest in our GE Harris Energy Control Systems, LLC joint venture and a $6.6 million after-tax ($.05 per diluted share) write-down of our investment interest in Terion, Inc.

(5) Results for fiscal 2001 include a $73.5 million after-tax ($.55 per diluted share) charge for the write-off of purchased in-process research and development, a $21.7 million after-tax ($.16 per diluted share) gain on the sale of our minority interest in our GE-Harris Railway Electronics, LLC joint venture and a $13.1 million after-tax ($.10 per diluted share) write-down of marketable securities.

1.13

JONES APPAREL GROUP, INC. (DEC)

SELECTED FINANCIAL DATA

The following financial information is qualified by reference to, and should be read in conjunction with, our Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this Report. The selected consolidated financial information presented below is derived from our audited Consolidated Financial Statements for each of the five years in the period ended December 31, 2005. We completed our acquisitions of McNaughton, Gloria Vanderbilt, l.e.i., Kasper, Maxwell and Barneys at various dates within the five-year period and, accordingly, the results of their operations are included in our operating results from the respective dates of acquisition.

(All amounts in millions except net income per share data)	2005	2004	2003	2002	2001
Income statement data					
Net sales	$5,014.6	$4,592.6	$4,339.1	$4,312.2	$4,073.8
Licensing income (net)	59.6	57.1	36.2	28.7	24.8
Total revenues	5,074.2	4,649.7	4,375.3	4,340.9	4,098.6
Cost of goods sold	3,243.8	2,944.4	2,738.6	2,657.0	2,570.4
Gross profit	1,830.4	1,705.3	1,636.7	1,683.9	1,528.2
Selling, general and administrative expenses	1,333.2	1,176.9	1,056.9	1,093.3	1,004.1
Amortization of goodwill	—	—	—	—	44.2
Operating income	497.2	528.4	579.8	590.6	479.9
Interest income	1.1	1.9	3.5	4.6	4.5
Interest expense and financing costs	76.2	51.2	58.8	62.7	84.6
Equity in earnings of unconsolidated affiliates	3.2	3.8	2.5	1.0	—
Income before provision for income taxes	425.3	482.9	527.0	533.5	399.8
Provision for income taxes	151.0	181.1	198.4	201.2	163.6
Income before cumulative effect of change in accounting principle	274.3	301.8	328.6	332.3	236.2
Cumulative effect of change in accounting for intangible assets, net of tax	—	—	—	13.8	—
Net income	$ 274.3	$ 301.8	$ 328.6	$ 318.5	$ 236.2
Per share data					
Income per share before cumulative effect of change in accounting principle					
Basic	$ 2.33	$ 2.44	$ 2.58	$ 2.59	$ 1.92
Diluted	$ 2.30	$ 2.39	$ 2.48	$ 2.46	$ 1.82
Net income per share					
Basic	$ 2.33	$ 2.44	$ 2.58	$ 2.48	$ 1.92
Diluted	$ 2.30	$ 2.39	$ 2.48	$ 2.36	$ 1.82
Dividends paid per share	$ 0.44	$ 0.36	$ 0.16	—	—
Weighted average common shares outstanding					
Basic	118.0	123.6	127.3	128.2	123.2
Diluted	119.2	126.5	136.5	139.0	133.7
Balance sheet data					
Working capital	$ 447.8	$ 612.3	$ 826.9	$ 890.9	$ 762.8
Total assets	4,577.8	4,550.8	4,187.7	3,852.6	3,373.5
Short-term debt and current portion of long-term debt and capital lease obligations	357.3	203.2	180.8	6.3	7.7
Long-term debt, including capital lease obligations	789.8	1,016.6	835.1	978.1	976.6
Stockholders' equity	2,666.4	2,653.9	2,537.8	2,303.5	1,905.4

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

1.14

CONSTELLATION BRANDS, INC. (FEB)

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

Overview

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, imported beer and spirits categories. The Company has the largest wine business in the world and is the largest multi-category supplier of beverage alcohol in the United States; a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom.

The Company reports its operating results in three segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Beers and Spirits (imported beer and distilled spirits) and Corporate Operations and Other. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments. The business segments reflect how the Company's operations are being managed, how operating performance within the Company is being evaluated by senior management and the structure of its internal financial reporting. In addition, the Company excludes acquisition related integration costs, restructuring and related charges and net unusual costs that affect comparability from its definition of operating income for segment purposes.

The Company's business strategy is to remain focused across the beverage alcohol industry by offering a broad range of products in each of the Company's three major categories: wine, imported beer and spirits. The Company intends to keep its portfolio positioned for superior top-line growth while maximizing the profitability of its brands. In addition, the Company seeks to increase its relative importance to key customers in major markets by increasing its share of their overall purchasing, which is increasingly important in a consolidating industry. The Company's strategy of breadth across categories and geographies is designed to deliver long-term profitable growth. This strategy allows the Company more investment choices, provides flexibility to address changing market conditions and creates stronger routes-to-market.

Marketing, sales and distribution of the Company's products, particularly the Constellation Wines segment's products, are managed on a geographic basis in order to fully leverage leading market positions within each geographic market. Market dynamics and consumer trends vary significantly across the Company's three core geographic markets—the U.S., Europe (primarily the U.K.) and Australasia (Australia/New Zealand). Within the U.S. market, the Company offers a wide range of beverage alcohol products across the Constellation Wines segment and the Constellation Beers and Spirits segment. In Europe, the Company leverages its position as the largest wine supplier in the U.K. In addition, the Company leverages its U.K. wholesale business as a strategic route-to-market for its imported wine portfolio and as a key supplier of a full range of beverage alcohol products to large national accounts. Within Australasia, where consumer trends favor domestic wine products, the Company leverages its position as one of the largest wine producers in Australia.

The Company remains committed to its long-term financial model of growing sales (both through acquisitions and organically), expanding margins and increasing cash flow to achieve superior earnings per share growth and improve return on invested capital.

The environment for the Company's products is fairly competitive in each of the Company's key geographic markets, due, in part, to industry and retail consolidation. Competition in the U.S. beers and spirits markets is normally intense, with domestic beer producers increasing brand spending in an effort to gain market share.

Additionally, the supply of certain raw materials, particularly grapes, as well as consumer demand, can affect the overall competitive environment. Two years of lighter than expected California grape harvests, combined with a reduction in wine grape acreage in California, has brought the U.S. grape supply more into balance with demand. This has led to an overall firming of the pricing of wine grape varietals from California. In Australia, two years of record grape harvests have contributed to an oversupply of certain red grape varietals, which has led to an overall reduction in grape costs for these varietals and greater pricing competition in the domestic market.

In Fiscal 2005 (as defined below), the Company's net sales increased 15.1% over Fiscal 2004 (as defined below) primarily from increases in branded wine net sales, the inclusion of $84.5 million of net sales of products acquired in the Robert Mondavi acquisition, increases in U.K. wholesale net sales and imported beer net sales, the inclusion of an additional one month of net sales of products acquired in the Hardy Acquisition (as defined below) and a favorable foreign currency impact. Operating income increased 16.5% over the comparable prior year period primarily due to a reduction in acquisition-related integration costs, restructuring and related charges and net unusual costs (see below under Fiscal 2005 compared to Fiscal 2004 Operating Income discussion), partially offset by increased selling and advertising expenses, as the Company continues to invest behind the imported beer portfolio and certain wine brands to drive growth and broader distribution, and increased Corporate general and administrative expenses. Lastly, as a result of the above factors and lower interest expense for Fiscal 2005, net income increased 25.4% over the comparable prior year period.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for the year ended February 28, 2005 ("Fiscal 2005"), compared to the year ended February 29, 2004 ("Fiscal 2004"), and Fiscal 2004 compared to the year ended February 28, 2003 ("Fiscal 2003"), and (ii) financial liquidity and capital resources for Fiscal 2005. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and net unusual costs expected to affect consolidated results of operations of the Company for the year ending February 28, 2006 ("Fiscal 2006"). This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

Common Stock Splits

On April 7, 2005, the Board of Directors of the Company approved two-for-one stock splits of the Company's Class A Common Stock and Class B Common Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to these common stock splits.

Acquisitions in Fiscal 2005 and Fiscal 2004 and Equity Method Investment

Acquisition of Robert Mondavi

On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation ("Robert Mondavi"), a leading premium wine producer based in Napa, California. In connection with the production of its products, Robert Mondavi owns, operates and has an interest in certain wineries and controls certain vineyards. Robert Mondavi produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. Woodbridge and Robert Mondavi Private Selection are the leading premium and super-premium wine brands, respectively, in the United States.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of Robert Mondavi's sales are generated in the United States. The Company intends to leverage the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company also intends to further expand distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure beginning in the first half of fiscal 2006.

The Company and Robert Mondavi have complementary businesses that share a common growth orientation and operating philosophy. The Robert Mondavi acquisition provides the Company with a greater presence in the fine wine sector within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom, United States and other wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was $1,030.7 million. Additionally, the Company expects to incur direct acquisition costs of $11.2 million. The purchase price was financed with borrowings under the Company's 2004 Credit Agreement (as defined below). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of Robert Mondavi, including the factors described above, as well as an estimated benefit from operating cost synergies.

The results of operations of the Robert Mondavi business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition. The acquisition of Robert Mondavi is significant and the Company expects it to have a material impact on the Company's future results of operations, financial position and cash flows. In particular, the Company expects its future results of operations to be significantly impacted by, among other things, the flow through of anticipated inventory step-up and adverse grape cost, acquisition-related integration costs, restructuring and related charges, and interest expense associated with the 2004 Credit Agreement (as defined below). Adverse grape cost represents the amount of historical inventory cost on Robert Mondavi's balance sheet that exceeds the Company's estimated ongoing grape cost and is primarily due to the purchase of grapes by Robert Mondavi prior to the acquisition date at above-market prices as required under the terms of their existing grape purchase contracts.

In connection with the Robert Mondavi acquisition and Robert Mondavi's previously disclosed intention to sell certain of its winery properties and related assets, and other vineyard properties, the Company has classified certain assets as held for sale as of February 28, 2005. The Company expects to sell these assets in Fiscal 2006 for net proceeds of approximately $150 million to $175 million. As of April 30, 2005, the Company has received net proceeds of $127.9 million. No gain or loss has been or is expected to be recognized upon the sale of these assets.

Acquisition of Hardy

On March 27, 2003, the Company acquired control of BRL Hardy Limited, now known as Hardy Wine Company Limited ("Hardy"), and on April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding capital stock. As a result of the acquisition of Hardy, the Company also acquired the remaining 50% ownership of Pacific Wine Partners LLC ("PWP"), the joint venture the Company established with Hardy in July 2001. The acquisition of Hardy along with the remaining interest in PWP is referred to together as the "Hardy Acquisition." Through this acquisition, the Company acquired one of Australia's largest wine producers with interests in wineries and vineyards in most of Australia's major wine regions as well as New Zealand and the United States. Hardy has a comprehensive portfolio of wine products across all price points with a strong focus on premium wine production. Hardy's wines are distributed worldwide through a network of marketing and sales operations, with the majority of sales generated in Australia, the United Kingdom and the United States.

Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was $1,137.4 million. Additionally, the Company recorded direct acquisition costs of $17.4 million. The acquisition date for accounting purposes is March 27, 2003. The Company has recorded a $1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is included as interest expense in the Consolidated Statement of Income for Fiscal 2004. The cash portion of the purchase price paid to the Hardy shareholders and optionholders ($1,060.2 million) was financed with $660.2 million of borrowings under the Company's then existing credit agreement and $400.0 million of borrowings under the Company's then existing bridge loan agreement. Additionally, the Company issued 6,577,826 shares of the Company's Class A Common Stock, which were valued at $77.2 million based on the simple average of the closing market price of the Company's Class A Common Stock beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The purchase price was based primarily on a discounted cash flow analysis that contemplated, among other things, the value of a broader geographic distribution in strategic international markets and a presence in the important Australian winemaking regions. The Company and Hardy have complementary businesses that share a common growth orientation and operating philosophy. The Hardy Acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. The purchase price and resulting goodwill were primarily based on the growth opportunities of the brand portfolio of Hardy. In particular, the Company believes there are growth opportunities for Australian wines in the United Kingdom, United States and other wine markets. This acquisition supports the Company's strategy of driving long-term growth and positions the Company to capitalize on the growth opportunities in "new world" wine markets.

The results of operations of Hardy and PWP have been reported in the Company's Constellation Wines segment since March 27, 2003. Accordingly, the Company's results of operations for Fiscal 2005 include the results of operations of Hardy and PWP for the entire period, whereas the results of operations for Fiscal 2004 only include the results of operations of Hardy and PWP from March 27, 2003, to the end of Fiscal 2004.

Investment in Ruffino

On December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. ("Ruffino"), the well-known Italian fine wine company, for a preliminary purchase price of $86.1 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. As of February 1, 2005, the Constellation Wines segment began distributing Ruffino's products in the United States. The Company accounts for the investment under the equity method; accordingly, the results of operations of Ruffino from December 3, 2004, are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income.

Results of Operations

Fiscal 2005 Compared to Fiscal 2004

Net Sales

The following table sets forth the net sales (in thousands of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

Net sales	2005	2004	% Increase/ (Decrease)
Constellation Wines:			
Branded wine	$1,830,808	$1,549,750	18.1%
Wholesale and other	1,020,600	846,306	20.6%
Constellation Wines net sales	$2,851,408	$2,396,056	19.0%
Constellation Beers and Spirits:			
Imported beers	$ 922,947	$ 862,637	7.0%
Spirits	313,283	284,551	10.1%
Constellation Beers and Spirits net sales	$1,236,230	$1,147,188	7.8%
Corporate operations and other	$ —	$ —	N/A
Unusual gain	$ —	$ 9,185	(100.0)%
Consolidated net sales	$4,087,638	$3,552,429	15.1%

Net sales for Fiscal 2005 increased to $4,087.6 million from $3,552.4 million for Fiscal 2004, an increase of $535.2 million, or 15.1%. This increase resulted primarily from an increase in branded wine net sales of $217.8 million (on a constant currency basis), including $84.2 million of net sales of branded wines acquired in the Robert Mondavi acquisition and $45.7 million of net sales of branded wines acquired in the Hardy Acquisition; an increase in U.K. wholesale net sales of $84.1 million (on a constant currency basis); and an increase in imported beer net sales of $60.3 million. In addition, net sales benefited from a favorable foreign currency impact of $155.5 million.

Constellation Wines

Net sales for Constellation Wines increased to $2,851.4 million for Fiscal 2005 from $2,396.1 million in Fiscal 2004, an increase of $455.4 million, or 19.0%. Branded wine net sales increased $281.1 million. This increase resulted from increased branded wine net sales in the U.S., Europe and Australasia of $217.8 million (on a constant currency basis), including $84.2 million of net sales of branded wines acquired in the Robert Mondavi acquisition and an additional one month of net sales of $45.7 million of branded wines acquired in the Hardy Acquisition, completed in March 2003, and a favorable foreign currency impact of $63.3 million. The increases in branded wine net sales in the U.S., Europe and Australasia are primarily due to volume growth as the Company continues to benefit from increased distribution and greater consumer demand for premium wines. Wholesale and other net sales increased $174.3 million primarily due to growth in the U.K. wholesale business of $84.1 million (on a constant currency basis) and a favorable foreign currency impact of $92.2 million. The net sales increase in the U.K. wholesale business on a local currency basis is primarily due to the addition of new national accounts in the first quarter of fiscal 2005 and increased sales in existing accounts during Fiscal 2005.

Constellation Beers and Spirits

Net sales for Constellation Beers and Spirits increased to $1,236.2 million for Fiscal 2005 from $1,147.2 million for Fiscal 2004, an increase of $89.0 million, or 7.8%. This increase resulted from a $60.3 million increase in imported beer net sales and an increase in spirits net sales of $28.7 million. The growth in imported beer sales is primarily due to a price increase on the Company's Mexican beer portfolio, which was introduced in January 2004. The growth in spirits net sales is attributable to increases in both the Company's contract production net sales as well as volume growth in branded net sales.

Gross Profit

The Company's gross profit increased to $1,140.6 million for Fiscal 2005 from $975.8 million for Fiscal 2004, an increase of $164.8 million, or 16.9%. The Constellation Wines segment's gross profit increased $122.6 million primarily due to the additional two months of sales of products acquired in the Robert Mondavi acquisition, volume growth in the U.S. branded wine net sales and a favorable foreign currency impact. The Constellation Beers and Spirits segment's gross profit increased $30.6 million primarily due to the increase in imported beer net sales and volume growth in the segment's spirits portfolio. In addition, net unusual costs, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were lower by $11.6 million in Fiscal 2005 versus Fiscal 2004. This decrease resulted from a $16.8 million writedown of commodity concentrate inventory in Fiscal 2004 in connection with the Company's decision to exit the commodity concentrate product line in the U.S. (see additional discussion under "Restructuring and Related Charges" below) and reduced flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of $16.0 million, partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of $11.5 million, which was recognized in the fourth quarter of fiscal 2004, and the flow through of adverse grape cost associated with the Robert Mondavi acquisition of $9.8 million in Fiscal 2005. Gross profit as a percent of net sales increased to 27.9% for Fiscal 2005 from 27.5% for Fiscal 2004 primarily due to the lower net unusual costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $555.7 million for Fiscal 2005 from $457.3 million for Fiscal 2004, an increase of $98.4 million, or 21.5%. The Constellation Wines segment's selling, general and administrative expenses increased $64.7 million primarily due to increased selling and advertising expenses as the Company continues to invest behind specific wine brands to drive broader distribution and additional selling, general and administrative expenses from the addition of the Robert Mondavi business. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased $7.1 million primarily due to increased imported beer and spirits selling expenses to support the growth across this segment's businesses. The Corporate Operations and Other segment's selling, general and administrative expenses increased $13.7 million primarily due to increased general and administrative expenses to support the Company's growth and costs associated with higher professional services fees, including costs incurred in connection with compliance activities associated with the Sarbanes-Oxley Act of 2002. Lastly, there was an increase of $12.9 million of net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. This increase includes $31.7 million of financing costs recorded in Fiscal 2005 related to (i) the Company's redemption of its Senior Subordinated Notes (as defined below) and (ii) the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition as compared to $11.6 million of financing costs recorded in Fiscal 2004 in connection with the Hardy Acquisition. Partially offsetting the $20.1 million increase in financing costs were net gains recorded in Fiscal 2005 on the sales of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. Selling, general and administrative expenses as a percent of net sales increased to 13.6% for Fiscal 2005 as compared to 12.9% for Fiscal 2004 primarily due to the growth in the Corporate Operations and Other segment's general and administrative expenses and the increased net unusual costs described above.

Restructuring and Related Charges

The Company recorded $7.6 million of restructuring and related charges for Fiscal 2005 associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations as previously announced in Fiscal 2004, (ii) the Company's decision in Fiscal 2004 to exit the commodity concentrate product line in the U.S. (collectively, the "Fiscal 2004 Plan"), and (iii) the Company's decision to restructure and integrate the operations of Robert Mondavi (the "Robert Mondavi Plan"). The Company is in the process of refining the Robert Mondavi Plan which will be finalized during Fiscal 2006. Restructuring and related charges included $3.8 million of employee termination benefit costs (net of reversal of prior accruals of $0.2 million), $1.5 million of contract termination costs, $1.0 million of facility consolidation and relocation costs, and other related charges of $1.3 million. The Company recorded $31.2 million of restructuring and related charges for Fiscal 2004 associated with the Fiscal 2004 Plan. In total, the Company recorded $48.0 million of costs for Fiscal 2004 allocated between cost of product sold and restructuring and related charges associated with the Fiscal 2004 Plan.

For Fiscal 2006, the Company expects to incur total restructuring and related charges of $4.9 million associated with the restructuring plans of the Constellation Wines segment. These charges are expected to consist of $1.7 million related to the further realignment of business operations in the Constellation Wines segment and $3.2 million related to the Robert Mondavi Plan.

Acquisition-Related Integration Costs

The Company recorded $9.4 million of acquisition-related integration costs for Fiscal 2005 associated with the Robert Mondavi Plan. Acquisition-related integration costs included $4.9 million of employee related costs and $4.5 million of facilities and other one-time costs. The Company expects to incur $14 million of acquisition-related integration costs for Fiscal 2006. These charges are expected to consist of $5 million of employee related costs and $9 million of facilities and other one-time costs.

Operating Income

The following table sets forth the operating income (loss) (in thousands of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

Operating income (loss)	2005	2004	% Increase/ (Decrease)
Constellation Wines	$406,562	$348,132	16.8%
Constellation Beers and Spirits	276,109	252,533	9.3%
Corporate operations and other	(55,980)	(41,717)	34.2%
Total reportable segments	626,691	558,948	12.1%
Acquisition-related integration costs, restructuring and related charges and net unusual costs	(58,795)	(71,591)	(17.9)%
Consolidated operating income	$567,896	$487,357	16.5%

As a result of the factors discussed above, consolidated operating income increased to $567.9 million for Fiscal 2005 from $487.4 million for Fiscal 2004, an increase of $80.5 million, or 16.5%. Acquisition-related integration costs, restructuring and related charges and net unusual costs of $58.8 million for Fiscal 2005 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent financing costs associated with the redemption of the Company's Senior Subordinated Notes and the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition of $31.7 million, adverse grape cost and acquisition-related integration costs associated with the Company's acquisition of Robert Mondavi of $9.8 million and $9.4 million, respectively, restructuring and related charges of $7.6 million in the wine segment associated with the Company's realignment of its business operations and the Robert Mondavi acquisition, and the flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of $6.4 million, partially offset by a net gain on the sale of non-strategic assets of $3.1 million and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of $3.0 million. Acquisition-related integration costs, restructuring and related charges and net unusual costs of $71.6 million for Fiscal 2004 represent the flow through of inventory step-up and the amortization of deferred financing costs associated with the Hardy Acquisition of $22.5 million and $11.6 million, respectively, and costs associated with exiting the commodity concentrate product line and the Company's realignment of its business operations in the wine segment, including the write-down of commodity concentrate inventory of $16.8 million and restructuring and related charges of $31.1 million, partially offset by the relief from certain excise taxes, duty and other costs incurred in prior years of $10.4 million.

Interest Expense, Net

Interest expense, net of interest income of $2.3 million and $3.6 million for Fiscal 2005 and Fiscal 2004, respectively, decreased to $137.7 million for Fiscal 2005 from $144.7 million for Fiscal 2004, a decrease of $7.0 million, or (4.8%). The decrease resulted from lower average borrowing rates in Fiscal 2005 as well as lower average borrowings. The reduction in average borrowing rates was attributed in part to the replacement of $200.0 million of higher fixed rate subordinated note debt with lower variable rate revolver debt. The reduction in average borrowings resulted from the use of proceeds from the Company's equity offerings in July 2003 to pay down debt incurred to partially finance the Hardy Acquisition combined with on-going principal payments on long-term debt, partially offset by additional borrowings in the fourth quarter of fiscal 2005 to finance the Robert Mondavi acquisition.

Provision for Income Taxes

The Company's effective tax rate remained the same at 36.0% for Fiscal 2005 and Fiscal 2004.

Net Income

As a result of the above factors, net income increased to $276.5 million for Fiscal 2005 from $220.4 million for Fiscal 2004, an increase of $56.1 million, or 25.4%.

Fiscal 2004 Compared to Fiscal 2003

Net Sales

The following table sets forth the net sales (in thousands of dollars) by operating segment of the Company for Fiscal 2004 and Fiscal 2003.

Net sales	2004	2003	% Increase
Constellation Wines:			
Branded wines	$1,549,750	$ 983,505	57.6%
Wholesale and other	846,306	689,794	22.7%
Constellation Wines net sales	$2,396,056	$1,673,299	43.2%
Constellation Beers and Spirits:			
Imported beers	$ 862,637	$ 776,006	11.2%
Spirits	284,551	282,307	0.8%
Constellation Beers and Spirits net sales	$1,147,188	$1,058,313	8.4%
Corporate operations and other	$ —	$ —	N/A
Unusual gain	$ 9,185	$ —	N/A
Consolidated net sales	$3,552,429	$2,731,612	30.0%

Net sales for Fiscal 2004 increased to $3,552.4 million from $2,731.6 million for Fiscal 2003, an increase of $820.8 million, or 30.0%. This increase resulted primarily from the inclusion of $571.4 million of net sales of products acquired in the Hardy Acquisition as well as increases in imported beer sales of $86.6 million and U.K. wholesale sales of $61.1 million (on a constant currency basis). In addition, net sales benefited from a favorable foreign currency impact of $74.6 million.

Constellation Wines

Net sales for the Constellation Wines segment for Fiscal 2004 increased to $2,396.1 million from $1,673.3 million for Fiscal 2003, an increase of $722.8 million, or 43.2%. Branded wine net sales increased $566.2 million, primarily due to the addition of $548.4 million of net sales of branded wine acquired in the Hardy Acquisition. Wholesale and other net sales increased $156.5 million primarily due to a favorable foreign currency impact of $63.1 million, growth in the U.K. wholesale business of $61.1 million (on a constant currency basis), and the addition of $23.0 million of net sales of bulk wine acquired in the Hardy Acquisition. The net sales increase in the U.K. wholesale business on a local currency basis is primarily due to the addition of new accounts and increased average delivery sizes as the Company's national accounts business continues to grow.

Constellation Beers and Spirits

Net sales for the Constellation Beers and Spirits segment for Fiscal 2004 increased to $1,147.2 million from $1,058.3 million for Fiscal 2003, an increase of $88.9 million, or 8.4%. This increase resulted primarily from volume gains on the Company's imported beer portfolio, which increased $86.6 million. Spirits net sales remained relatively flat as increased branded spirits sales were offset by lower bulk whisky and contract production sales.

Gross Profit

The Company's gross profit increased to $975.8 million for Fiscal 2004 from $760.7 million for Fiscal 2003, an increase of $215.1 million, or 28.3%. The Constellation Wines segment's gross profit increased $200.4 million primarily due to gross profit on the sales of branded wine acquired in the Hardy Acquisition. The Constellation Beers and Spirits segment's gross profit increased $42.5 million primarily due to the volume growth in the segment's imported beer portfolio. These increases were partially offset by $27.8 million of net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. These net costs represent the flow through of inventory step-up associated with the Hardy Acquisition of $22.5 million and the write-down of concentrate inventory recorded in connection with the Company's decision to exit the commodity concentrate product line of $16.8 million (see additional discussion under "Restructuring and Related Charges" below), partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of $11.5 million, which was recognized in the fourth quarter of fiscal 2004. Gross profit as a percent of net sales decreased slightly to 27.5% for Fiscal 2004 from 27.8% for Fiscal 2003 as an increase in gross profit margin from sales of higher margin wine brands acquired in the Hardy Acquisition was more than offset by the net unusual costs discussed above and a decrease in gross profit margin on the Constellation Wines' U.K. wholesale business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $457.3 million for Fiscal 2004 from $351.0 million for Fiscal 2003, an increase of $106.3 million, or 30.3%. The Constellation Wines segment's selling, general and administrative expenses increased $76.8 million primarily due to $67.7 million of selling, general and administrative expenses from the addition of the Hardy and PWP businesses. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased $7.9 million due to increased imported beer and spirits advertising and selling expenses to support the growth across this segment's businesses, partially offset by foreign currency gains. The Corporate Operations and Other segment's general and administrative expenses increased $8.9 million primarily due to additional deferred financing costs associated with the Company's new bank credit facility and increased general and administrative expenses to support the Company's growth. In addition, there was a $12.7 million increase in selling, general and administrative expenses related to net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. These costs consist primarily of the additional amortized deferred financing costs associated with the bridge financing in connection with the Hardy Acquisition of $11.6 million. Selling, general and administrative expenses as a percent of net sales increased slightly to 12.9% for Fiscal 2004 as compared to 12.8% for Fiscal 2003 due primarily to the net unusual costs and the increased general and administrative expenses within the Corporate Operations and Other segment as discussed above.

Restructuring and Related Charges

The Company recorded $31.2 million of restructuring and related charges for Fiscal 2004 associated with the restructuring plan of the Constellation Wines segment. Restructuring and related charges resulted from (i) $10.0 million related to the realignment of business operations and (ii) $21.2 million related to exiting the commodity concentrate product line in the U.S. and selling its winery located in Escalon, California. In total, the Company recorded $38.0 million of costs associated with exiting the commodity concentrate product line and selling its Escalon facility allocated between cost of product sold ($16.8 million) and restructuring and related charges ($21.2 million).

The Company recorded $4.8 million of restructuring and related charges for Fiscal 2003 associated with an asset impairment charge in connection with two of Constellation Wines segment's production facilities.

Operating Income

The following table sets forth the operating income (loss) (in thousands of dollars) by operating segment of the Company for Fiscal 2004 and Fiscal 2003.

Operating income (loss)	2004	2003	% Increase
Constellation Wines	$348,132	$224,556	55.0%
Constellation Beers and Spirits	252,533	217,963	15.9%
Corporate operations and other	(41,717)	(32,797)	27.2%
Total reportable segments	558,948	409,722	36.4%
Acquisition-related integration costs, restructuring and related charges and net unusual costs	(71,591)	(4,764)	1402.7%
Consolidated operating income	$487,357	$404,958	20.3%

As a result of the factors discussed above, consolidated operating income increased to $487.4 million for Fiscal 2004 from $405.0 million for Fiscal 2003, an increase of $82.4 million, or 20.3%. Acquisition-related integration costs, restructuring and related charges and net unusual costs of $71.6 million and $4.8 million for Fiscal 2004 and Fiscal 2003, respectively, consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. Fiscal 2004 costs represent the flow through of inventory step-up and the amortization of deferred financing costs associated with the Hardy Acquisition of $22.5 million and $11.6 million, respectively, and costs associated with exiting the commodity concentrate product line and the Company's realignment of its business operations in the wine segment, including the write-down of concentrate inventory of $16.8 million and restructuring and related charges of $31.2 million, partially offset by the relief from certain excise taxes, duty and other costs incurred in prior years of $10.4 million. Fiscal 2003 costs represent restructuring and related charges associated with the Company's realignment of its business operations in the wine segment.

Gain on Change in Fair Value of Derivative Instruments

The Company entered into a foreign currency collar contract in February 2003 in connection with the Hardy Acquisition to lock in a range for the cost of the acquisition in U.S. dollars. As of February 28, 2003, this derivative instrument had a fair value of $23.1 million. Under SFAS No. 133, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the derivative was recorded on the balance sheet at its fair value with the change in the fair value recognized separately on the Company's Consolidated Statements of Income. During the first quarter of fiscal 2004, the gain on change in fair value of the derivative instrument of $1.2 million was recognized separately on the Company's Consolidated Statement of Income.

Equity in Earnings of Equity Method Investees

The Company's equity in earnings of equity method investees decreased to $0.5 million in Fiscal 2004 from $12.2 million in Fiscal 2003 due to the acquisition of the remaining 50% ownership of PWP in March 2003 resulting in consolidation of PWP's results of operations since the date of acquisition.

Interest Expense, Net

Interest expense, net of interest income of $3.6 million and $0.8 million for Fiscal 2004 and Fiscal 2003, respectively, increased to $144.7 million for Fiscal 2004 from $105.4 million for Fiscal 2003, an increase of $39.3 million, or 37.3%. The increase resulted from higher average borrowings due to the financing of the Hardy Acquisition, partially offset by a lower average borrowing rate, and $1.7 million of imputed interest expense related to the Hardy Acquisition.

Provision for Income Taxes

The Company's effective tax rate for Fiscal 2004 declined to 36.0% from 39.3% for Fiscal 2003 as a result of the Hardy Acquisition, which significantly increased the allocation of income to jurisdictions with lower income tax rates.

Net Income

As a result of the above factors, net income increased to $220.4 million for Fiscal 2004 from $203.3 million for Fiscal 2003, an increase of $17.1 million, or 8.4%.

Financial Liquidity and Capital Resources

General

The Company's principal use of cash in its operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States, the annual grape crush normally begins in August and runs through October. In Australia, the annual grape crush normally begins in February and runs through May. The Company generally begins taking delivery of grapes at the beginning of the crush season with payments for such grapes beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements. The Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, preferred stock dividend payment requirements, and anticipated capital expenditure requirements for both its short-term and long-term capital needs. The Company also has in place an effective shelf registration statement covering the potential sale of up to $750.0 million of debt securities, preferred stock, Class A Common Stock or any combination thereof. As of May 16, 2005, the entire $750.0 million of capacity was available under the shelf registration statement.

Fiscal 2005 Cash Flows

Operating Activities

Net cash provided by operating activities for Fiscal 2005 was $320.7 million, which resulted from $276.5 million of net income, plus $176.0 million of net non-cash items charged to the Consolidated Statement of Income, less $131.7 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment, deferred tax provision and the non-cash portion of loss on extinguishment of debt. The net change in operating assets and liabilities resulted primarily from increases in accounts receivable and inventories. The increases in accounts receivable and inventories are primarily as a result of the Company's growth in Fiscal 2005.

Investing Activities

Net cash used in investing activities for Fiscal 2005 was $1,222.9 million, which resulted primarily from net cash paid of $1,052.5 million for purchases of businesses and $119.7 million of capital expenditures.

Financing Activities

Net cash provided by financing activities for Fiscal 2005 was $884.2 million resulting primarily from proceeds from issuance of long-term debt of $2,400.0 million, partially offset by principal payments of long-term debt of $1,488.7 million.

Fiscal 2004 Cash Flows

Operating Activities

Net cash provided by operating activities for Fiscal 2004 was $340.3 million, which resulted from $220.4 million of net income, plus $137.9 million of net non-cash items charged to the Consolidated Statement of Income, less $18.0 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment, deferred tax provision and amortization of intangible and other assets. The net change in operating assets and liabilities resulted primarily from an increase in accounts receivable and a decrease in accounts payable, partially offset by a decrease in inventories and an increase in accrued advertising and promotion.

Investing Activities

Net cash used in investing activities for Fiscal 2004 was $1,158.5 million, which resulted primarily from net cash paid of $1,069.5 million for the purchases of businesses and $105.1 million of capital expenditures.

Financing Activities

Net cash provided by financing activities for Fiscal 2004 was $745.2 million resulting primarily from proceeds of $1,600.0 million from issuance of long-term debt, including $1,060.2 million of long-term debt incurred to acquire Hardy, plus net proceeds from the 2003 Equity Offerings (as defined below) of $426.1 million. This amount was partially offset by principal payments of long-term debt of $1,282.3 million.

During June 1998, the Company's Board of Directors authorized the repurchase of up to $100.0 million of its Class A Common Stock and Class B Common Stock. The repurchase of shares of common stock will be accomplished, from time to time, in management's discretion and depending upon market conditions, through open market or privately negotiated transactions. The Company may finance such repurchases through cash generated from operations or through the senior credit facility. The repurchased shares will become treasury shares. As of May 16, 2005, the Company had purchased a total of 8,150,688 shares of Class A Common Stock at an aggregate cost of $44.9 million, or at an average cost of $5.51 per share. Of this total amount, no shares were repurchased during Fiscal 2005, Fiscal 2004 or Fiscal 2003.

Debt

Total debt outstanding as of February 28, 2005, amounted to $3,289.3 million, an increase of $1,241.4 million from February 29, 2004. The ratio of total debt to total capitalization increased to 54.2% as of February 28, 2005, from 46.3% as of February 29, 2004, primarily as a result of the additional borrowings in the fourth quarter of fiscal 2005 to finance the acquisition of Robert Mondavi.

Senior Credit Facility

2004 Credit Agreement

In connection with the acquisition of Robert Mondavi, on December 22, 2004, the Company and its U.S. subsidiaries (excluding certain inactive subsidiaries), together with certain of its subsidiaries organized in foreign jurisdictions, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "2004 Credit Agreement"). The 2004 Credit Agreement provides for aggregate credit facilities of $2.9 billion, consisting of a $600.0 million tranche A term loan facility due in November 2010, a $1.8 billion tranche B term loan facility due in November 2011, and a $500.0 million revolving credit facility (including a sub-facility for letters of credit of up to $60.0 million) which terminates in December 2010. Proceeds of the 2004 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the cash consideration payable in connection with its acquisition of Robert Mondavi, and to pay certain obligations of Robert Mondavi, including indebtedness outstanding under its bank facility and unsecured notes of $355.4 million. The Company uses the remaining availability under the 2004 Credit Agreement to fund its working capital needs on an as needed basis. In connection with entering into the 2004 Credit Agreement, the Company recorded a charge of $21.4 million in selling, general and administrative expenses for the write-off of bank fees related to the repayment of the Company's prior senior credit facility in the fourth quarter of fiscal 2005.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on December 22, 2004. As of February 28, 2005, the required principal repayments of the tranche A term loan and the tranche B term loan are as follows.

(In thousands)	Tranche A Term Loan	Tranche B Term Loan	Total
2006	$ 60,000	$ —	$ 60,000
2007	67,500	17,168	84,668
2008	97,500	17,168	114,668
2009	120,000	17,168	137,168
2010	127,500	17,168	144,668
Thereafter	112,500	1,626,828	1,739,328
	$585,000	$1,695,500	$2,280,500

The rate of interest payable, at the Company's option, is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is adjustable based upon the Company's debt ratio (as defined in the 2004 Credit Agreement) and, with respect to LIBOR borrowings, ranges between 1.00% and 1.75%. As of February 28, 2005, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.50%, while the LIBOR margin on the tranche B term loan facility is 1.75%.

The Company's obligations are guaranteed by its U.S. subsidiaries (excluding certain inactive subsidiaries) and by certain of its foreign subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in most of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries' are also subject to customary lending covenants including those restricting additional liens, the incurrence of additional indebtedness (including guarantees of indebtedness), the sale of assets, the payment of dividends, transactions with affiliates, the disposition and acquisition of property and the making of certain investments, in each case subject to numerous baskets, exceptions and thresholds. The financial covenants are limited to maximum total debt and senior debt coverage ratios and minimum fixed charges and interest coverage ratios. As of February 28, 2005, the Company is in compliance with all of its covenants under its 2004 Credit Agreement.

As of February 28, 2005, under the 2004 Credit Agreement, the Company had outstanding tranche A term loans of $585.0 million bearing a weighted average interest rate of 4.3%, tranche B term loans of $1,695.5 billion bearing a weighted average interest rate of 4.4%; revolving loans of $14.0 million bearing a weighted average interest rate of 3.8%, undrawn revolving letters of credit of $36.7 million, and $449.3 million in revolving loans available to be drawn.

As of February 28, 2005, the Company had outstanding five year interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on $1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five-year term. Subsequent to February 28, 2005, the Company monetized the value of the interest rate swaps by replacing them with new swaps which extended the hedged period through fiscal 2010. The Company received $30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from Accumulated Other Comprehensive Income ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statement of Income. The effective interest rate remains the same under the new swap structure at 4.1%.

Foreign Subsidiary Facilities

The Company has additional credit arrangements available totaling $176.0 million as of February 28, 2005. These arrangements support the financing needs of certain of the Company's foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2005, amounts outstanding under the subsidiary credit arrangements were $34.0 million.

Senior Notes

As of February 28, 2005, the Company had outstanding $200.0 million aggregate principal amount of 8⅝% Senior Notes due August 2006 (the "Senior Notes"). The Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

As of February 28, 2005, the Company had outstanding £1.0 million ($1.9 million) aggregate principal amount of 8½% Series B Senior Notes due November 2009 (the "Sterling Series B Senior Notes"). In addition, as of February 28, 2005, the Company had outstanding £154.0 million ($295.4 million, net of $0.5 million unamortized discount) aggregate principal amount of 8½% Series C Senior Notes due November 2009 (the "Sterling Series C Senior Notes"). The Sterling Series B Senior Notes and Sterling Series C Senior Notes are currently redeemable, in whole or in part, at the option of the Company. Also, as of February 28, 2005, the Company had outstanding $200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). The February 2001 Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Senior Subordinated Notes

On March 4, 1999, the Company issued $200.0 million aggregate principal amount of 8½% Senior Subordinated Notes due March 2009 ("Senior Subordinated Notes"). The Senior Subordinated Notes were redeemable at the option of the Company, in whole or in part, at any time on or after March 1, 2004. On February 10, 2004, the Company issued a Notice of Redemption for its Senior Subordinated Notes. On March 11, 2004, the Senior Subordinated Notes were redeemed with proceeds from the revolving credit facility under the Company's then existing senior credit facility at 104.25% of par plus accrued interest. During Fiscal 2005, in connection with this redemption, the Company recorded a charge of $10.3 million in selling, general and administrative expenses for the call premium and the remaining unamortized financing fees associated with the original issuance of the Senior Subordinated Notes.

As of February 28, 2005, the Company had outstanding $250.0 million aggregate principal amount of 8⅛% Senior Subordinated Notes due January 2012 (the "January 2002 Senior Subordinated Notes"). The January 2002 Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2007.

Contractual Obligations and Commitments

The following table sets forth information about the Company's long-term contractual obligations outstanding at February 28, 2005. It brings together data for easy reference from the consolidated balance sheet and from individual notes to the Company's consolidated financial statements.

Payments Due by Period (In thousands)	Total	Less Than 1 Year	1–3 Years	3–5 Years	After 5 Years
Contractual obligations					
Notes payable to banks	$ 16,475	$ 16,475	$ —	$ —	$ —
Long-term debt (excluding unamortized discount)	3,273,258	68,094	619,746	594,249	1,991,169
Operating leases	408,221	52,952	91,094	63,060	201,115
Other long term liabilities	358,316	88,410	111,926	59,367	98.613
Unconditional purchase obligations[(1)]	2,755,098	470,788	731,604	501,588	1,051,118
Total contractual obligations	$6,811,368	$696,719	$1,554,370	$1,218,264	$3,342,015

[(1)] Total unconditional purchase obligations consist of $27.2 million for contracts to purchase various spirits over the next eight fiscal years. $2,499.7 million for contracts to purchase grapes over the next ten fiscal years, $132.1 million for contracts to purchase bulk wine over the next seven fiscal years, $80.0 million for processing contracts over the next ten fiscal years, and $16.0 million for sweetener purchase contracts over the next two fiscal years.

Equity Offerings

During July 2003, the Company completed a public offering of 19,600,000 shares of its Class A Common Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of $261.2 million. In addition, the Company also completed a public offering of 170,500 shares of its 5.75% Series A Mandatory Convertible Preferred Stock ("Preferred Stock") resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of $164.9 million. The Class A Common Stock offering and the Preferred Stock offering are referred to together as the "2003 Equity Offerings." The majority of the net proceeds from the 2003 Equity Offerings were used to repay the Company's then existing bridge loans that were incurred to partially finance the Hardy Acquisition. The remaining proceeds were used to repay term loan borrowings under the Company's then existing senior credit facility.

Capital Expenditures

During Fiscal 2005, the Company incurred $119.7 million for capital expenditures. The Company plans to spend approximately $140 million for capital expenditures in Fiscal 2006. In addition, the Company continues to consider the purchase, lease and development of vineyards and may incur additional expenditures for vineyards if opportunities become available. Management reviews the capital expenditure program periodically and modifies it as required to meet current business needs.

Effects of Inflation and Changing Prices

The Company's results of operations and financial condition have not been significantly affected by inflation and changing prices. The Company has been able, subject to normal competitive conditions, to pass along rising costs through increased selling prices. There can be no assurances, however, that the Company will continue to be able to pass along rising costs through increased selling prices.

Critical Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in this Annual Report. However, certain of the Company's accounting policies are particularly important to the portrayal of the Company's financial position and results of operations and require the application of significant judgment by the Company's management; as a result they are subject to an inherent degree of uncertainty. In applying those policies, the Company's management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on the Company's historical experience, the Company's observance of trends in the industry, information provided by the Company's customers and information available from other outside sources, as appropriate. On an ongoing basis, the Company reviews its estimates to ensure that they appropriately reflect changes in the Company's business. The Company's critical accounting policies include:

Accounting for Promotional Activities

Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates. Certain customer incentive programs require management to estimate the cost of those programs. The accrued liability for these programs is determined through analysis of programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. If assumptions included in the Company's estimates were to change or market conditions were to change, then material incremental reductions to revenue could be required, which would have a material adverse impact on the Company's financial statements. Promotional costs were $390.9 million, $336.4 million and $231.6 million for Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively.

Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of goods sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on the Company's financial statements.

Accounting for Business Combinations

The acquisition of businesses is an important element of the Company's strategy. Under the purchase method, the Company is required to record the net assets acquired at the estimated fair value at the date of acquisition. The determination of the fair value of the assets acquired and liabilities assumed requires the Company to make estimates and assumptions that affect the Company's financial statements. For example, the Company's acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred.

Impairment of Goodwill and Intangible Assets with Indefinite Lives

Intangible assets with indefinite lives consist primarily of trademarks as well as agency relationships. The Company is required to analyze its goodwill and other intangible assets with indefinite lives for impairment on an annual basis as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends. The impairment testing requires management to estimate the fair value of the assets or reporting unit and record an impairment loss for the excess of the carrying value over the fair value. The estimate of fair value of the assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting unit is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for these assets. The recording of any resulting impairment loss could have a material adverse impact on the Company's financial statements.

Accounting Pronouncements Not Yet Adopted

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43 ("ARB No. 43"), "Restatement and Revision of Accounting Research Bulletins," Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is required to adopt SFAS No. 151 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 151 on its consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment." SFAS No. 123(R) replaces Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Acounting for Stock Issued to Employees." SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. In addition, SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a grant date fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) also amends Statement of Financial Accounting Standards No. 95 ("SFAS No. 95"). "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) applies to all awards granted, modified, repurchased, or cancelled after the required effective date (see below). In addition SFAS No. 123(R) requires entities that used the fair-value-based method for either recognition or disclosure under SFAS No. 123 to apply SFAS No. 123(R) using a modified version of prospective application. This application requires compensation cost to be recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered based on the grant date fair value of those awards as calculated under SFAS No. 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123. In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), "Share Based Payment," to express the views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements for public companies. The Company is required to adopt SFAS No. 123(R) for interim periods beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 123(R) on its consolidated financial statements and will take into consideration the additional guidance provided by SAB No. 107 in connection with the Company's adoption of SFAS No. 123(R).

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board Opinion No. 29 ("APB No. 29"), "Accounting for Nonmonetary Transactions," to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replace it with a general exception from fair value measurement for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company is required to adopt SFAS No. 153 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 153 on its consolidated financial statements.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FSP FAS 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. Although FSP FAS 109-2 is effective immediately, the Company is currently assessing the impact of guidance issued by the Treasury Department and the Internal Revenue Service on May 10, 2005, as well as the relevance of additional guidance expected to be issued. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional guidance.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." FIN No. 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations." A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 is effective for the Company no later than the end of the year ending February 28, 2006. The Company is currently assessing the financial impact of FIN No. 47 on its consolidated financial statements.

Cautionary Information Regarding Forward-Looking Statements

This Annual Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical facts included in this Annual Report, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's business strategy, future financial position, prospects, plans and objectives of management, as well as information concerning expected actions of third parties are forward-looking statements. When used in this Annual Report, the words "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, important factors that could cause actual results to differ materially from those set forth in, or implied, by the Company's forward-looking statements contained in this Annual Report are as follows:

- The Company's indebtedness could have a material adverse effect on its financial health.
- The Company's acquisition and joint venture strategies may not be successful.
- Competition could have a material adverse effect on the Company's business.
- An increase in excise taxes or government regulations could have a material adverse effect on the Company's business.
- The Company relies on the performance of wholesale distributors, major retailers and chains for the success of its business.
- The Company's business could be adversely affected by a decline in the consumption of products the Company sells.
- The Company generally purchases raw materials under short-term supply contracts, and the Company is subject to substantial price fluctuations for grapes and grape-related materials, and the Company has a limited group of suppliers of glass bottles.
- The Company's operations subject it to risks relating to currency rate fluctuations, interest rate fluctuations and geopolitical uncertainty which could have a material adverse effect on the Company's business.
- The Company has a material amount of goodwill, and if the Company is required to write-down goodwill, it would reduce the Company's net income, which in turn could have a material adverse effect on the Company's results of operations.
- The termination or non-renewal of the Company's imported beer distribution agreements could have a material adverse effect on the Company's business.
- Class action or other litigation relating to alcohol abuse or the misuse of alcohol could adversely affect the Company's business.
- The Company depends upon its trademarks and proprietary rights, and any failure to protect its intellectual property rights or any claims that the Company is infringing upon the rights of others may adversely affect the Company's competitive position.
- Contamination or other circumstances could harm the integrity or customer support for the Company's brands and adversely affect the sales of those products.

For additional information about risks and uncertainties that could adversely affect the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended February 28, 2005.

Quantitative and Qualitative Disclosures About Market Risk

The Company, as a result of its global operating and financing activities, is exposed to market risk associated with changes in foreign currency exchange rates and interest rates. To manage the volatility relating to these risks, the Company periodically purchases and/or sells derivative instruments including foreign currency exchange contracts and interest rate swap agreements. The Company uses derivative instruments solely to reduce the financial impact of these risks and does not use derivative instruments for trading purposes.

Foreign currency forward contracts and foreign currency options are used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales both to third parties as well as intercompany sales, and intercompany principal and interest payments. As of February 28, 2005, the Company had exposures to foreign currency risk primarily related to the Australian dollar, euro, New Zealand dollar, British pound sterling, Canadian dollar and Mexican peso.

As of February 28, 2005, and February 29. 2004, the Company had outstanding foreign exchange derivative instruments with a notional value of $601.6 million and $735.8 million, respectively. Approximately 63% of the Company's total exposures were hedged as of February 28, 2005. Using a sensitivity analysis based on estimated fair value of open contracts using forward rates, if the contract base currency had been 10% weaker as of February 28, 2005, and February 29, 2004, the fair value of open foreign exchange contracts would have been decreased by $65.2 million and $72.4 million, respectively. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments.

The fair value of fixed rate debt is subject to interest rate risk, credit risk and foreign currency risk. The estimated fair value of the Company's total fixed rate debt including current maturities, was $1,088.1 million and $1.321.8 million as of February 28, 2005, and February 29, 2004, respectively. A hypothetical 1% increase from prevailing interest rates as of February 28, 2005, and February 29, 2004, would have resulted in a decrease in fair value of fixed interest rate long-term debt by $37.0 million and $52.9 million, respectively.

As of February 28, 2005, the Company had outstanding five-year interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on $1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five-year term. A hypothetical 1% increase from prevailing interest rates as of February 28, 2005 would have increased the fair value of the interest rate swaps by $53.1 million. As of February 29, 2004, the Company had no interest rate swap agreements outstanding.

In addition to the $1,088.1 million and $1,321.8 million estimated fair value of fixed rate debt outstanding as of February 28, 2005, and February 29, 2004, respectively, the Company also had variable rate debt outstanding (primarily LIBOR based) as of February 28, 2005, and February 29, 2004, of $2,302.7 million and $861.8 million, respectively. Using a sensitivity analysis based on a hypothetical 1% increase in prevailing interest rates over a 12-month period, the approximate increase in cash required for interest as of February 28, 2005 and February 29, 2004 is $23.0 million and $7.4 million, respectively.

Forward-Looking Information Excerpt

1.15

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

FORWARD OUTLOOK

The following section contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are based on the beliefs and assumptions of management, together with information available to us when the statements were made. Future results could differ materially from those included in such forward-looking statements as a result of, among other things, the factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission and certain economic and business factors which may be beyond our control. Investors are cautioned that all forward-looking statements involve risks and uncertainties.

"Building It Forward 2007"

In 2002, we announced our goals for growth and diversification entitled "Building it Forward 2007." The goals call for us to:

- Grow our sales by $1 billion while continuing to diversify our markets, primarily by growing our market share of products we manufacture for the industrial and site-built construction markets.
- Improve our cash cycle by 10%.
- Improve our return on invested capital from approximately 10% to over 13%.

Based on our 2005 results, we have achieved our sales growth and return on invested capital goals and have made progress toward our cash cycle goal.

We anticipate continued growth in our business in 2006. Key assumptions with respect to our 2006 outlook include:

- Modest increases in interest rates are mitigated by favorable demographic trends and economic conditions resulting in a continued strong site-built construction market, although not as strong as 2005.
- The continued need for manufactured and modular housing as the South recovers from 2005's hurricanes and the growing trend among manufactured housing producers to switch to modular housing.
- A stable DIY/retail market with opportunities for growth with existing customers and increased opportunities for new products, customers and market share through our new Consumer Products Division, which was announced in October 2005.
- Continued opportunities for market share gains in both site-built construction and industrial business.
- The completion of strategic business acquisitions.
- A stable Lumber Market.

With these factors in mind, we have targeted unit sales growth and net earnings growth of 10% to 15% each in 2006. Our net earnings growth target includes the impact of adopting FASB Statement No. 123(R), which we are required to do beginning in the first quarter of 2006. We currently estimate that this statement will result in an annual pre-tax expense totaling approximately $875,000.

DIY/Retail Market

The Home Improvement Research Institute forecasts an increase in home improvement product sales of 4.6% to $305 billion in 2006. A slower pace of growth is forecasted due to softening of the housing market and consumer spending.

In 2006, we currently believe our unit sales will increase primarily due to additional business awarded from certain "big box" home improvement retailers and our acquisitions of Maine Ornamental and DecKorators. On a long-term basis, it is our goal to achieve sales growth by:

- Maintaining our market share on sales of value-added wood products and preservative-treated products as a result of our national presence, service capabilities that meet stringent customer requirements, diversified product offering, and purchasing leverage.
- Increasing our sales of wood alternative products such as composite wood decking, which continues to take market share from preservative-treated products. Although we expect this trend to continue to some extent, we believe wood products will continue to maintain a dominant market share for the foreseeable future as a result of its cost advantages over wood alternative products.
- Developing new value-added products and services for this market through our newly formed Consumers Products Division.
- Adding capacity through strategic business acquisitions.

Site-Built Construction Market

The *National Association of Home Builders* forecasts a 6.3% decline in housing starts resulting from an anticipated increase in long-term interest rates. The effect of rising interest rates may be mitigated somewhat by favorable demographic trends leading to a larger number of households and construction activity resulting from hurricanes Katrina and Rita.

In 2006 and on a long-term basis, we anticipate growth in our sales to the site-built construction market primarily as a result of market share gains achieved through:

- Acquisitions of component manufacturers and framing services providers. We believe the trend whereby customers prefer to purchase a combination of components and framing services will continue. Therefore, our acquisition strategy includes targeted markets for framing operations.
- Greater customer acceptance of engineered wood components because of the benefits these products provide builders over traditional carpentry methods employed on the job site.
- Industry consolidation toward large production-oriented builders, which tend to prefer the use of engineered products and who desire suppliers with a national presence.

We expect that business acquisitions will play a major role in our future growth in this market.

Manufactured Housing Market

The Manufactured Housing Institute forecasts a 3% increase in shipments of HUD code homes in 2006 as a result of continued demand from both rebuilding along the gulf coast and pent up demand for manufactured housing due to the shift of shipments to the gulf coast at the end of 2005. It is our goal to maintain our current market share of trusses produced for this market, which is currently estimated at 65%.

Sales of modular homes are expected to increase in 2006 as a result of more developers adopting the controlled building environment of modular construction as a method of cost control. This trend is expected to be particularly prevalent along the gulf coast as the challenge of rebuilding over 300,000 homes destroyed by the hurricanes will shift builders toward the speed of modular construction. In addition, these consumers are expected to experience more favorable lending rates compared to HUD code homes. It is our goal to maintain our current market share of over 80% of trusses produced for the modular market as a result of our strong relationships with modular builders, design services and proprietary products.

Industrial Market

One of our key strategic objectives is to increase our sales of wood packaging products to industrial users. We believe the vast amount of hardwood and softwood lumber consumed for industrial applications, combined with the highly fragmented nature of this market provides us with significant growth opportunities as a result of our competitive cost advantages in manufacturing, purchasing, and material utilization. To take advantage of these opportunities, we plan to continue to obtain market share through an internal growth strategy utilizing our current manufacturing capabilities and dedicated industrial sales force. On a long-term basis, we also plan to evaluate strategic acquisition opportunities.

Gross Profit

We believe the following factors may impact our gross profits in the future:

- We have a long-term goal of continuing to increase our ratio of value-added sales to total sales, which in turn should increase gross margins. Our acquisition and internal sales growth strategies will help us continue to make progress toward this objective, including our goal of increasing our market share of products we manufacture for the industrial and site-built construction markets. However, achievement of this goal is dependent, in part, upon certain factors that are beyond our control.
- Our ability to increase sales and maintain gross margins on products sold to our largest customers. We believe our level of service, geographic diversity, and quality of products provide an added value to our customers. If our customers are unwilling to pay for the additional services, our sales and gross margins may be reduced.
- Fluctuations in the relative level of the Lumber Market and the trend in the market price of lumber impact our gross margins.
- The relative strength of our end markets may impact our sales prices, capacity utilization, and profitability.
- Our ability to continue to achieve cost reductions through our company-wide innovation program.

In addition, we do not anticipate achieving the same magnitude of improvements in under-performing operations in 2006 that we did in 2005.

Selling, General, and Administrative Expenses

SG&A costs have increased at a rate greater than our unit sales in recent years due, in part, to acquisitions of engineered wood component manufacturers, which have extensive engineering and design costs, our growth in sales to the industrial market, and certain investments in technology. SG&A costs as a percentage of sales may continue to increase in the future as sales of engineered wood components and specialty wood packaging become a greater percentage of our total business. However, we strive to achieve economies of scale in other administrative departments as sales growth objectives are met.

Liquidity and Capital Resources

Our cash cycle will continue to be impacted in the future by our growth in sales to the site-built construction and industrial markets. Sales to these markets require a greater investment in working capital (inventory and accounts receivable) than our sales to the DIY/retail and manufactured housing markets.

Management expects to spend $45 million to $50 million on capital expenditures in 2006 and incur depreciation and amortization of approximately $39 million. Besides "maintenance" capital expenditures totaling approximately $35 million, we plan to spend an additional $10 million to $15 million to expand the business. On December 31, 2005, we had outstanding purchase commitments on capital projects of approximately $2.9 million.

We have no present intention to change our dividend policy, which is currently $0.055 per share paid semi-annually.

Our Board of Directors has approved a share repurchase program under which we have authorization to buy back approximately 1.5 million shares as of December 31, 2005. In the past, we have repurchased shares in order to offset the effect of issuances resulting from our employee benefit plans and at times when our stock price falls to a pre-determined level.

We are obligated to pay amounts due on long-term debt totaling approximately $0.5 million in 2006.

We have a $250 million unsecured revolving credit facility used to support certain outstanding letters of credit and fund seasonal working capital requirements and growth. We believe our peak seasonal working capital requirements may consume up to $125 million of this availability through June of 2006 and then decrease for the balance of the year in line with historical trends. We plan to finance our capital requirements for the year through operating cash flows, the use of a new sale of receivables program, and use of our revolving credit facility.

Liquidity and Capital Resources Excerpt

1.16

STEELCASE INC. (FEB)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The following table summarizes our statement of cash flows:

	2005	2004 (As Restated)	2003 (As Restated)
Net cash flow provided by (used in):			
Operating activities	$114.7	$ 87.9	$ 48.7
Investing activities	(25.7)	19.3	318.3
Financing activities	(60.3)	(56.8)	(301.7)
Effect of exchange rate changes on cash and cash equivalents	5.7	2.9	2.7
Net increase in cash and cash equivalents	34.4	53.3	68.0
Cash and cash equivalents, beginning of period	182.2	128.9	60.9
Cash and cash equivalents, end of period	$216.6	$182.2	$ 128.9

During 2005, we increased cash and cash equivalents by $34.4 to a balance of $216.6 as of February 25, 2005, our highest level of cash since 1998. These funds and our short-term investments, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our known or foreseeable liquidity and capital needs. The increase in cash and cash equivalents was due to a number of factors. Operating activities generated cash from net income plus depreciation and amortization which is added back to net income. Depreciation and amortization continue to be much higher than current levels of capital expenditures. Financing activities used cash to pay down debt and to pay dividends.

Cash and cash equivalents include $24.4 invested in a money market fund, the use of which is restricted as collateral primarily for our accrued liability related to our workers' compensation program. If this restricted cash is needed for liquidity purposes, we can replace the collateral for our workers' compensation program with a letter of credit and have full access to the proceeds of the money market fund.

During 2005, we reclassified our investments in auction rate securities from cash and cash equivalents to short-term investments. Auction rate securities classified as short-term investments were $131.4 and $80.0 as of February 25, 2005 and February 27, 2004, respectively. These investments are typically held for approximately 30 days, and all investments held at year-end were converted to cash by March 29, 2005. Because auction rate securities are no longer classified as cash, acquisitions of investments in these securities are a use of cash from investing activities and liquidations of these securities are a source of cash from investing activities. Notes 2 and 3 to the Consolidated Financial Statements provide more information regarding this reclassification.

We look at various scenarios for cash planning purposes. In one possible scenario—a substantial and rapid increase in revenue in a short period of time—we anticipate we would likely experience a corresponding rapid increase in accounts receivables and inventories. This rapid increase in required working capital would represent a significant use of cash. We retain sufficient cash balances to respond to working capital needs driven by a rapid increase in revenue.

Significant uses of cash in Q1 2006 include approximately $51.0 in debt repayments and an annual payment of $36.3 related to 2005 variable compensation.

Cash Provided by Operating Activities

Cash Flow Data–Operating Activities	2005	2004	2003
Net income (loss)	$ 12.7	$(23.8)	$(266.8)
Depreciation and amortization	127.6	141.4	157.4
Gain on sale of net assets of discontinued operations	—	(31.9)	—
Deferred income taxes	(13.7)	(34.2)	(42.5)
Cumulative effect of accounting change	—	4.2	229.9
Changes in operating assets and liabilities	(25.3)	(13.7)	(44.1)
Other, net	13.4	45.9	14.8
Net cash provided by operating activities	$114.7	$ 87.9	$ 48.7

Cash flow provided by operating activities was sufficient to fund our capital expenditure needs for 2005 and we expect this trend to continue.

The year-to-year change in cash generated from operating activities was primarily due to improvements in year-over-year income from continuing operations. Additionally, Other, net, decreased primarily due to current year restructuring payments, lower charges related to dealer transitions and fixed asset impairment and disposals.

Most of the change in cash generated from operating activities from 2003 to 2004 was due to a reduction in net loss, a gain on sale of net assets of discontinued operations in 2004, a cumulative effect of accounting change in 2003, and changes in operating assets and liabilities. The changes in operating assets and liabilities were primarily driven by lower revenue, lower manufacturing volume, and implementation of lean manufacturing principles.

Cash Provided by (Used in) Investing Activities

Cash Flow Data–Investing Activities	2005	2004 (As Restated)	2003 (As Restated)
Capital expenditures	$(49.2)	$(43.0)	$ (76.5)
Short-term investments, net	(51.4)	(80.0)	8.5
Net proceeds from repayments of lease fundings	32.3	23.2	(8.0)
Proceeds from the sales of leased assets	4.7	48.8	302.0
Proceeds from the disposal of fixed assets	19.8	28.8	55.6
Net decrease (increase) in notes receivable	15.1	(6.2)	26.0
Proceeds on sale of net assets of discontinued operations	—	47.9	—
Other, net	3.0	(0.2)	10.7
Net cash provided by (used in) investing activities	$(25.7)	$ 19.3	$318.3

We used cash in investing activities in 2005 primarily for the net acquisition of short-term investments in auction rate securities and capital expenditures. We continue to closely scrutinize capital spending to ensure we are making the right investments to sustain the business and to preserve our ability to introduce innovative, new products. In 2005, capital expenditures were less than half of depreciation, which represented a source of cash.

In 2004 and 2003, we generated cash from investing activities primarily from the sale of leased and fixed assets and the sale of our Attwood facility in 2004. The sale of leased assets was primarily due to the new lease funding strategy implemented by our Financial Services subsidiary in 2004. In preparation for its new strategy, Financial Services sold a large portion of its lease portfolio in 2003 and continued to sell a portion of the remaining leased assets during 2004 and 2005. Under its new strategy, Financial Services continues to originate leases for customers, but uses a third party to provide lease funding. A significant amount of the cash generated from these activities was used to increase our short-term investment portfolio.

Proceeds from the disposal of fixed assets in 2005 and 2004 were primarily from the sale of domestic and international manufacturing facilities and related equipment.

We have significantly reduced our capital expenditures in the past three years to limit new projects to those that meet key economic metrics and deliver short payback cost savings or support critical strategic initiatives such as product development. At the end of 2005, our committed capital expenditures totaled $19.5 and related primarily to the purchase of a new corporate aircraft which will replace a corporate aircraft that we currently own in Q1 2006. In 2006, we expect to receive proceeds of approximately $15 from the sale of the corporate aircraft that we currently own.

Cash Used in Financing Activities

Cash Flow Data–Financing Activities	2005	2004	2003
Dividends paid	$(35.6)	$(35.5)	$ (35.4)
Short-term and long-term debt, net	(28.8)	(22.9)	(270.1)
Common stock issuance	4.1	1.6	3.8
Net cash used in financing activities	$(60.3)	$(56.8)	$(301.7)

We used cash in financing activities in 2005 primarily to pay down debt and to pay common stock dividends to our shareholders. We paid common stock dividends of $0.24 per share in 2005, 2004 and 2003. The dividend declared by the Board of Directors was $0.06 per share in each quarter of 2005, 2004, and 2003.

We issued common stock in 2005 for proceeds of $4.1 related to the exercise of employee stock options. See Note 11 of the consolidated financial statements for further discussion regarding the Company's stock-based incentive plans.

The Board of Directors has authorized share repurchases of up to 11 million shares. We did not repurchase any common shares during 2005, 2004 or 2003. Approximately 3.8 million shares remain available for repurchase under the program and we have no outstanding share repurchase commitments. Since the inception of our repurchase program, 7.2 million shares have been repurchased for $112.7 million.

Capital Resources

Off-Balance Sheet Arrangements

We are contingently liable under loan guarantees for certain Steelcase dealers and joint ventures in the event of default or non-performance of the financial repayment of the liability. Due to the contingent nature of guarantees, the full value of the guarantees are not recorded on our consolidated balance sheets; however, we have reserves recorded to cover potential losses. See Note 14 to the consolidated financial statements for more information regarding financial instruments, concentrations of credit risk, commitments, guarantees and contingencies.

Contractual Obligations

Our contractual obligations as of February 25, 2005 are as follows:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1–3 Years	3–5 Years	After 5 Years
Long-term debt and short-term borrowings	$325.7	$ 67.6	$258.1	$ —	$ —
Estimated interest on debt obligations	34.7	18.4	16.3	—	—
Operating leases	291.2	52.1	76.1	57.1	105.9
Committed capital expenditures	19.5	19.5	—	—	—
Purchase obligations	7.9	7.9	—	—	—
Other long-term liabilities	270.1	52.6	43.3	46.6	127.6
Total	$949.1	$218.1	$393.8	$103.7	$233.5

Total consolidated debt as of February 25, 2005 was $325.7. The $28.3 decrease in total debt from 2004 was driven by debt repayments. Our debt to capital ratio was 21.4% at year-end. Of our total debt, $249.5 is in the form of term notes due November 2006. We are currently considering various options regarding the maturity of the term notes, one of which is to have a replacement facility in place before the senior notes expire. Additionally, we have notes payable due at various times through 2007. We expect to pay the amounts due on the notes as they expire.

Of the $67.6 of debt payments due in 2005 (as presented in the contractual obligations table above), $9.6 relates to foreign currency notes payable and revolving credit facility obligations. Of the remaining $58.0 balance related to United States dollar notes payable obligations, we expect to repay $51.0 as it becomes due in Q1 2006.

The Company has commitments related to certain sales offices, showrooms, and equipment under non-cancelable operating leases that expire at various dates through 2020. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are presented in the contractual obligation table above.

Committed capital expenditures represent obligations we have related to property, plant and equipment purchases. See more detail under the *Cash provided by (used in) investing activities* section.

We define purchase obligations as non-cancelable signed contracts to purchase goods or services beyond the needs of meeting current backlog or production.

Other long-term liabilities represent contribution and benefit payments expected to be made for our defined contribution, deferred compensation, pension and post-retirement benefit plans. It should be noted our obligations related to post-retirement benefit plans are not contractual and the plans could be amended at the discretion of the Compensation Committee of the Board of Directors. We limited our disclosure of contributions and benefit payments to 10 years as information beyond this time period was not available. See Note 9 to the consolidated financial statements for further discussion regarding these plans.

The contractual obligations table above is current as of February 25, 2005. The amounts of these obligations could change materially over time as new contracts or obligations are initiated and existing contracts or obligations are terminated or modified.

Our total liquidity facilities as of February 25, 2005 were:

	Amount
Global committed bank facility	$250.0
Various uncommitted lines	130.1
Total credit lines available	380.1
Less: borrowings outstanding	7.8
Available capacity (subject to covenant constraints)	$372.3

At February 25, 2005, we had no borrowings against our $250.0 3-year global committed bank facility. Our obligations under this facility are unsecured and unsubordinated. The Company may, at its option, and subject to customary conditions, request to increase the aggregate commitment by up to $100.0 by obtaining at least one commitment from one or more lenders. This facility and certain of our other financing and lease facilities require us to satisfy financial covenants including a minimum net worth covenant, a maximum debt ratio covenant, a minimum interest coverage ratio covenant and an asset coverage ratio covenant. In October 2003, Moody's Investor Services lowered its rating on the Company to Ba1, thus activating the asset ratio covenant. Although we have $372.3 of available capacity, our maximum debt ratio covenant would limit additional borrowings to approximately $122.6 as of February 25, 2005. As of February 25, 2005, we were in compliance with all covenants under this facility and our other financing and lease facilities. The amounts available to us under the various uncommitted lines are subject to change or cancellation by the banks at any time. Our long-term debt rating is BBB– from Standard & Poor's and Ba1 from Moody's Investor Service.

On October 13, 2004, we filed a universal shelf registration statement with the Securities and Exchange Commission that will allow the Company to offer various types of securities from time to time in the future. The shelf registration statement includes a primary component of up to $200.0 of debt securities and a secondary component of up to 7.5 million shares of Class A common stock.

New Accounting Standards Excerpt

1.17

ITT INDUSTRIES, INC. (DEC)

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123R") which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." This statement eliminates the option of using the intrinsic value method of accounting for employee stock options (historically utilized by the Company), which generally resulted in the recognition of no compensation cost. The provisions of SFAS No. 123R require the recognition of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the awards as determined by option pricing models. The calculated compensation cost is recognized over the period that the employee is required to provide services per the conditions of the award. SFAS No. 123R is effective for the Company on January 1, 2006. The Company estimates that adoption of this statement will lead to the recognition of employee compensation equivalent to $0.09 per share in 2006.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). This statement clarifies the criteria of "abnormal amounts" of freight, handling costs, and spoilage that are required to be expensed as current period charges rather than deferred in inventory. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for the Company as of January 1, 2006. Adoption of SFAS No. 151 will not have a material effect on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces Accounting Principles Board ("APB") Opinion No. 20 "Accounting Changes," and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance that it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period specific effects or the cumulative effect of the change. SFAS No. 154 does not change the transition provisions of any existing pronouncement. SFAS No. 154 is effective for the Company for all accounting changes and corrections of errors made beginning January 1, 2006.

In January 2004, FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP No. 106-1") was issued. Subsequently, FSP No. 106-2 was issued, which amends FSP No. 106-1 and discusses the recognition of the effects for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Modernization Act") in the accounting for postretirement health care plans under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and in providing disclosures related to the plan required by SFAS No. 132. The Company adopted this pronouncement effective July 1, 2004, but was unable to conclude whether benefits of its plans were actuarially equivalent based on the proposed regulations released in August 2004. The Company has now determined that a majority of its healthcare plans pass the test of actuarial equivalence and during the fourth quarter of 2005 made application to Centers for Medicare & Medicaid Services ("CMS") for the subsidy provided under the Medicare Modernization Act. Other than the effect of the subsidy, there was no expectation that retiree participation would be affected in the short-term given the nature of the Company's healthcare plans. See Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements for discussion of postretirement benefits.

In March 2005, the FASB issued Financial Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations". FIN 47 requires that the entity recognize a liability for the fair value of a conditional asset retirement obligation at the point in time when that liability can be reasonably estimated. The majority of conditional asset retirement obligations incurred by the Company relates to asbestos-containing materials that exist in certain owned facilities. The adoption of FIN 47 resulted in the recording of a cumulative effect of a change in accounting principle of $6.5 million, net of tax and a conditional asset-retirement obligation liability of $11.2 million. Utilizing current period assumptions, the Company would have had liabilities for conditional asset-retirement obligations of $9.3 million and $10.6 million at January 1, 2004 and December 31, 2004, respectively.

Market Risk Information Excerpt

1.18

CLEVELAND-CLIFFS INC (DEC)

MARKET RISK

We are subject to a variety of market risks, including those caused by changes in market value of equity investments, commodity prices, foreign currency exchange rates and interest rates. We have established policies and procedures to manage risks; however, certain risks are beyond our control.

Our investment policy relating to cash and cash equivalents is to preserve principal and liquidity while maximizing the return through investment of available funds. The carrying value of these investments approximates fair value on the reporting dates.

We hold investments in highly liquid auction rate securities ("ARS") in order to generate higher than typical money market investments. ARS typically are high credit quality, generally achieved with municipal bond insurance. Credit risks are eased by the historical track record of bond insurers, which back a majority of this market. Although rare, sell orders for any security traded through a Dutch auction process could exceed bids. Such instances are usually the result of a drastic deterioration of issuer credit quality. Should there be a failed auction, we may be unable to liquidate our position in the securities in the near term.

The rising cost of energy is an important issue for us as it comprises approximately 27 percent of our North American production costs. Our North American mining ventures consumed approximately 13.6 million mmbtu's (million btu's) of natural gas and 26.5 million gallons of diesel fuel (Company share 9.6 million mmbtu's and 16.6 million gallons of diesel fuel) in 2005. In 2005, the average price paid by the North American mining ventures was $8.00 per mmbtu for natural gas and $1.95 per gallon for diesel fuel. Recent trends indicate that electric power, natural gas and oil costs can be expected to increase over time, although the direction and magnitude of short-term changes are difficult to predict. Our strategy to address increasing energy rates includes improving efficiency in energy usage and utilizing the lowest cost alternative fuel. We also use forward purchases of natural gas and diesel fuel to stabilize fluctuations in near-term prices. For 2006, we purchased or have forward purchase contracts for 7.8 million mmbtu's of natural gas at an average price of $9.86 per mmbtu and 3.2 million gallons of diesel fuel at $2.05 per gallon for our North American mining ventures.

Our mining ventures enter into forward contracts for certain commodities, primarily natural gas and diesel fuel, as a hedge against price volatility. Such contracts, which are in quantities expected to be delivered and used in the production process, are a means to limit exposure to price fluctuations. At December 31, 2005, the notional amounts of the outstanding forward contracts were $28.6 million (our share—$24.7 million), with an unrecognized fair value loss of $5.2 million (our share—$4.4 million) based on December 31, 2005 forward rates. The contracts mature at various times through December 2006. If the forward rates were to change 10 percent from the year-end rate, the value and potential cash flow effect on the contracts would be approximately $2.0 million (our share—$1.7 million).

Our share of Wabush Mines operation in Canada represented approximately six percent of our North American pellet production. This operation is subject to currency exchange fluctuations between the U.S. and Canadian dollars; however, we do not hedge our exposure to this currency exchange fluctuation. Between 2003 and 2005, the value of the Canadian dollar rose against the U.S. dollar from $.64 U.S. dollar per Canadian dollar at the beginning of 2003 to $.86 U.S. dollar per Canadian dollars at December 31, 2005, an increase of 34 percent. The average exchange rate increased to $.83 U.S. dollar per Canadian dollar in 2005 from an average of $.77 U.S. dollar per Canadian dollar for 2004, an increase of eight percent. We do not believe that the recent increase in the U.S./Canadian exchange rate is a trend that will continue in the long-term; however, short-term fluctuations cannot reasonably be predicted.

We are subject to changes in foreign currency exchange rates in Australia as a result of our operations at Portman, which could impact our financial condition. Foreign exchange risk arises from our exposure to fluctuations in foreign currency exchange rates because our reporting currency is the United States dollar. We do not hedge our exposure to this currency exchange fluctuation. A 10 percent movement in quoted foreign currency exchange rates could result in a fair value change of approximately $44 million in our net investment.

Portman hedges a portion of its United States currency-denominated sales in accordance with a formal policy. The primary objective for using derivative financial instruments is to reduce the earnings volatility attributable to changes in Australian and United States currency fluctuations. The instruments are subject to formal documentation, intended to achieve qualifying hedge treatment, and are tested at inception and at each reporting period as to effectiveness. Changes in fair value for highly effective hedges are recorded as a component of other comprehensive income. Ineffective portions are charged to operations. At December 31, 2005, Portman had outstanding A$370.1 million in the form of call options, collars, convertible collars and forward exchange contracts with varying maturity dates ranging from January 2006 to October 2008, and a fair value loss based on the December 31, 2005 exchange rate of A$.9 million. A one percent increase in rates from the month-end rate would increase the fair value and cash flow by approximately A$2.0 million and a one percent decrease would decrease the fair value and cash flow by approximately A$3.6 million.

Critical Accounting Policies Excerpt

1.19

THOMAS & BETTS CORPORATION (DEC)

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements contained in this report requires the use of estimates and assumptions to determine certain amounts reported as net sales, costs, expenses, assets or liabilities and certain amounts disclosed as contingent assets or liabilities. Actual results may differ from those estimates or assumptions. Our significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements. We believe our critical accounting policies include the following:

Revenue Recognition

We recognize revenue when finished products are shipped to unaffiliated customers and both title and risks of ownership are transferred. Sales discounts, quantity and price rebates, and allowances are estimated based on contractual commitments and experience and recorded in the period as a reduction of revenue in which the sale is recognized. Quantity rebates are in the form of volume incentive discount plans, which include specific sales volume targets or year-over-year sales volume growth targets for specific customers. Certain distributors can take advantage of price rebates by subsequently reselling the Corporation's products into targeted construction projects or markets. Following a distributor's sale of an eligible product, the distributor submits a claim for a price rebate. The Corporation provides additional allowances for bad debts when circumstances dictate. A number of distributors, primarily in the Electrical segment, have the right to return goods under certain circumstances and those returns, which are reasonably estimable, are accrued as a reduction of revenue at the time of shipment. Management analyzes historical returns and allowances, current economic trends and specific customer circumstances when evaluating the adequacy of accounts receivable related reserves and accruals.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. To ensure inventories are carried at the lower of cost or market, the Corporation periodically evaluates the carrying value of its inventories. The Corporation also periodically performs an evaluation of inventory for excess and obsolete items. Such evaluations are based on management's judgment and use of estimates. Such estimates incorporate inventory quantities on-hand, aging of the inventory, sales forecasts for particular product groupings, planned dispositions of product lines and overall industry trends.

Goodwill and Other Intangible Assets

We follow the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires a transitional and annual test of goodwill and indefinite lived assets associated with reporting units for indications of impairment. The Corporation performs its annual impairment assessment in the fourth quarter of each year, unless circumstances dictate more frequent assessments. Under the provisions of SFAS No. 142, each test of goodwill requires the Corporation to determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Corporation must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date.

Long-Lived Assets

We follow the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. For purposes of recognizing and measuring impairment of long-lived assets, the Corporation evaluates assets at the lowest level of identifiable cash flows for associated product groups. The Corporation reviews long-lived assets to be held-and-used for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of the primary asset in the associated product groups is less than the carrying amount of the assets, the assets are considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. When fair values are not available, the Corporation estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Pension and Postretirement Benefit Plan Actuarial Assumptions

We follow the provisions of SFAS No. 87, "Employer's Accounting for Pensions" and SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other than Pensions." For purposes of calculating pension and postretirement medical benefit obligations and related costs, the Corporation uses certain actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these assumptions annually. Other assumptions include employee demographic factors (retirement patterns, mortality and turnover), rate of compensation increase and the healthcare cost trend rate. See additional information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualified Pension Plans.

Income Taxes

We use the asset and liability method of accounting for income taxes. This method recognizes the expected future tax consequences of temporary differences between book and tax bases of assets and liabilities and provides a valuation allowance based on a more-likely-than-not criteria. The Corporation has valuation allowances for deferred tax assets primarily associated with operating loss carryforwards, tax credit carryforwards and deferred state income tax assets. Realization of the deferred tax assets is dependent upon the Corporation's ability to generate sufficient future taxable income and, if necessary, execution of its tax planning strategies. Management believes that it is more-likely-than-not that future taxable income, based on enacted tax law in effect as of December 31, 2005, will be sufficient to realize the recorded deferred tax assets net of existing valuation allowances. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies, which involve estimates and uncertainties, in making this assessment. Tax planning strategies include primarily sales of non-core assets. Projected future taxable income is based on management's forecast of the operating results of the Corporation. Management periodically reviews such forecasts in comparison with actual results and expected trends. In the event management determines that sufficient future taxable income, in light of tax planning strategies, may not be generated to fully realize net deferred tax assets, the Corporation will increase valuation allowances by a charge to income tax expense in the period of such determination. Likewise, if management determines that future taxable income will be sufficient to utilize state and foreign net operating loss carryforwards and other deferred tax assets, the Corporation will decrease the existing valuation allowance by recording a reduction to income tax expense in the period of such determination.

Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that those costs will be incurred and can be reasonably estimated based on evaluations of current available facts related to each site.

SEGMENT INFORMATION

1.20 Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, supersedes SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise*, in reporting information about a public business enterprise's operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

1.21 *SFAS No. 131* requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. It requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements. It requires that all public business enterprises report information about the revenues derived from the enterprise's products or services (or groups of similar products and services), about the countries in which the enterprise earns revenues and holds assets, and about major customers regardless of whether that information is used in making operating decisions. However, this Statement does not require an enterprise to report information that is not prepared for internal use if reporting it would be impracticable. In addition to *SFAS No. 131, SFAS No. 142, Goodwill and Other Intangible Assets*, requires that entities which report segment information shall provide information about the changes in the carrying amount of goodwill during the period for each reportable segment.

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

1.23

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Industry segments				
Revenue	420	406	420	404
Operating income or loss	328	304	318	310
Identifiable assets	381	366	378	389
Depreciation expense	392	374	395	406
Capital expenditures	352	337	354	367
Goodwill	200	174	127	N/C*
Geographic area				
Revenue	306	321	323	296
Operating income or loss	41	65	68	48
Identifiable assets	73	96	89	82
Depreciation expense	37	49	40	37
Capital expenditures	32	46	35	34
Goodwill	11	18	9	N/C*
Export sales	28	33	37	33
Sales to major customers	137	136	178	137

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

1.24

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Business Segment Information

The company has determined that it has five reportable segments organized along a combination of product lines and geographical areas—North American metal beverage packaging, North American metal food packaging, North American plastic packaging, international packaging and aerospace and technologies. Prior periods have been conformed to the current presentation. We also have investments in the packaging segments that are accounted for under the equity method of accounting, and, accordingly, those results are not included in segment sales or earnings. The accounting policies of the segments are the same as those described in the summary of critical and significant accounting policies (Note 1). See also Notes 3 and 4 for information regarding transactions affecting segment results.

North American Metal Beverage Packaging

The North American metal beverage packaging segment consists of operations in the U.S., Canada and Puerto Rico, which manufacture metal containers primarily for use in beverage packaging.

North American Metal Food Packaging

The North American metal food packaging segment consists of operations in the U.S. and Canada, which manufacture metal containers primarily for use in food packaging.

North American Plastic Packaging

The North American plastic packaging segment consists of operations in the U.S. which manufacture polyethylene terephthalate (PET) plastic containers primarily for use in beverage packaging.

International Packaging

International packaging, with operations in several countries in Europe and the PRC, includes the manufacture and sale of metal beverage container products in Europe and Asia, as well as plastic containers in Asia.

Aerospace and Technologies

Aerospace and technologies includes the manufacture and sale of aerospace and other related products and services used primarily in the defense, civil space and commercial space industries.

Major Customers

Following is a summary of Ball's major customers and their respective percentages of consolidated sales for the years ended December 31:

	2005	2004	2003
SABMiller plc	11%	11%	12%
PepsiCo, Inc. and affiliates	10%	9%	10%
All bottlers of Pepsi-Cola or Coca-Cola branded beverages	27%	28%	29%
U.S. government agencies and their prime contractors	11%	10%	10%

SUMMARY OF NET SALES BY GEOGRAPHIC AREA

($ in millions)	U.S.	Other[(a)]	Consolidated
2005	$4,133.3	$1,617.9	$5,751.2
2004	3,898.9	1,541.3	5,440.2
2003	3,567.8	1,409.2	4,977.0

SUMMARY OF LONG-LIVED ASSETS BY GEOGRAPHIC AREA[(b)]

($ in millions)	U.S.	Germany	Other[(c)]	Consolidated
2005	$1,856.1	$1,099.7	$161.8	$3,117.6
2004	2,077.0	1,286.7	(131.6)	3,232.1
2003	2,002.3	1,207.6	(63.8)	3.146.1

[(a)] Includes the company's net sales in the PRC, Canada and certain European countries (none of which was significant), intercompany eliminations and other.

[(b)] Long-lived assets primarily consist of property, plant and equipment, goodwill and other intangible assets.

[(c)] Includes the company's long-lived assets in the PRC, Canada and certain European countries, not including Germany (none of which was significant), intercompany eliminations and other.

Summary of Business by Segment

($ in millions)	2005	2004	2003
Net sales			
North American metal beverage packaging	$2,390.4	$2,360.6	$2,292.2
North American metal food packaging	824.0	777.5	646.2
North American plastic packaging	487.5	401.0	376.0
International packaging	1,354.5	1,248.1	1,127.7
Aerospace and technologies	694.8	653.0	534.9
Net sales	$5,751.2	$5,440.2	$4,977.0
Consolidated earnings			
North American metal beverage packaging[(a)]	$ 229.8	$ 279.1	$ 250.8
North American metal food packaging[(a)]	11.6	44.3	19.8
North American plastic packaging[(a)]	17.4	11.6	12.3
International packaging[(a)]	181.8	198.0	158.6
Aerospace and technologies[(a)]	54.7	48.7	49.5
Segment earnings before interest and taxes	495.3	581.7	491.0
Corporate undistributed expenses	(32.8)	(42.8)	(30.2)
Earnings before interest and taxes	462.5	538.9	460.8
Interest expense[(b)]	(116.4)	(103.7)	(141.1)
Tax provision	(99.3)	(139.2)	(100.1)
Minority interests	(0.8)	(1.0)	(1.0)
Equity in results of affiliates	15.5	0.6	11.3
Net earnings	$ 261.5	$ 295.6	$ 229.9
Depreciation and amortization			
North American metal beverage packaging	$ 69.0	$ 68.4	$ 72.2
North American metal food packaging	16.3	15.6	14.2
North American plastic packaging	36.8	40.0	41.1
International packaging	73.4	74.2	62.5
Aerospace and technologies	14.9	14.6	12.9
Segment depreciation and amortization	210.4	212.8	202.9
Corporate	3.1	2.3	2.6
Depreciation and amortization	$ 213.5	$ 215.1	$ 205.5

[(a)] Includes the following business consolidation gains (costs) discussed in Note 4:

($ in millions)	2005	2004	2003
North American metal beverage packaging	$(19.3)	$ —	$ 1.6
North American metal food packaging	(11.2)	0.4	(1.4)
North American plastic packaging	—	0.7	—
International packaging	9.3	13.7	3.3
Aerospace and technologies	—	0.4	0.2
	$(21.2)	$15.2	$ 3.7

[(b)] Includes $19.3 million and $15.2 million of debt refinancing costs in 2005 and 2003, respectively.

($ in millions)	2005	2004
Total assets		
North American metal beverage packaging	$1,664.4	$1,861.1
North American metal food packaging	445.1	429.8
North American plastic packaging	320.9	306.9
International packaging	2,122.6	2,255.8
Aerospace and technologies	253.1	210.3
Segment eliminations	(537.5)	(767.3)
Segment assets	4,268.6	4,296.6
Corporate assets, net of eliminations	74.8	181.1
Total assets	$4,343.4	$4,477.7

($ in millions)	2005	2004	2003
Investments in affiliates			
North American metal beverage packaging	$ 9.5	$ 7.7	$ 5.0
North American metal food packaging	—	—	0.8
International packaging	48.4	50.0	64.2
Aerospace and technologies	7.5	25.4	22.8
Investments in affiliates	$ 65.4	$ 83.1	$ 92.8
Property, plant and equipment additions			
North American metal beverage packaging	$109.9	$ 57.0	$ 38.5
North American metal food packaging	16.8	14.3	28.6
North American plastic packaging	27.6	19.2	23.6
International packaging	97.9	73.9	22.1
Aerospace and technologies	33.1	24.0	19.2
Segment property, plant and equipment additions	285.3	188.4	132.0
Corporate	6.4	7.6	5.2
Property, plant and equipment additions	$291.7	$196.0	$137.2

4. Business Consolidation Activities

Following is a summary of business consolidation (costs) and gains included in the consolidated statements of earnings for the years ended December 31, 2005, 2004 and 2003:

($ in millions)	2005	2004	2003
North American metal beverage packaging	$(19.3)	$ —	$ 1.6
North American metal food packaging	(11.2)	0.4	(1.4)
North American plastic packaging	—	0.7	—
International packaging	9.3	13.7	3.3
Aerospace and technologies	—	0.4	0.2
	$(21.2)	$15.2	$ 3.7

2005

North American Metal Beverage Packaging

The company announced in July 2005 the commencement of a project to upgrade and streamline its North American beverage can end manufacturing capabilities. The project is expected to be completed in 2007 and will result in productivity gains and cost reductions. A pretax charge of $19.3 million ($11.7 million after tax) was recorded in the third quarter of 2005 in connection with this project. The pretax charge includes $11.7 million for employee severance, pension and other employee benefit costs, $1.6 million for decommissioning costs and $6 million for the write off of obsolete equipment spare parts and tooling. Payments made in 2005 were insignificant.

North American Metal Food Packaging

The fourth quarter of 2005 included a pretax charge of $4.6 million ($3.1 million after tax) for pension, severance and other employee benefit costs related to a reduction in force in our Burlington, Ontario, plant. Payments made in 2005 were insignificant.

A pretax charge of $8.8 million ($5.9 million after tax) was recorded in the second quarter of 2005 in connection with the closure of a three-piece food can manufacturing plant in Quebec, Canada. The Quebec plant was closed and ceased operations in the third quarter of 2005 and an agreement has been reached to sell the land and building which resulted in the second quarter charge being offset by a $2.2 million gain ($1.5 million after tax) in the fourth quarter to adjust the Quebec plant to net realizable value. At December 31, 2005, the resulting reserve had been reduced by $1.9 million of cash payments made. The pretax charge, net of the offsetting gain, included $3.2 million for employee severance, pension and other employee benefit costs and $3.4 million for decommissioning cost and the write-down to net realizable value of fixed assets and other costs. When all assets are disposed of, management expects the plant closure to result in a net cash inflow. A total of 77 employees were terminated in connection with the closure.

The following table summarizes the activity in the 2005 North American business consolidation activities:

($ in millions)	Fixed Assets/ Spare Parts	Pension Costs	Employee Costs	Other	Total
Charge (earnings) to North American segments:					
Second quarter 2005	$ 4.8	$ 0.5	$ 2.6	$ 0.9	$ 8.8
Third quarter 2005	6.0	4.7	7.0	1.6	19.3
Fourth quarter 2005	(2.2)	2.7	1.9	—	2.4
Payments	—	—	(1.7)	(0.5)	(2.2)
Disposal of spare parts	(1.4)	—	—	—	(1.4)
Transfers to assets and liabilities to reflect estimated realizable values and foreign exchange effects	(1.6)	(7.9)	0.2	—	(9.3)
Balance at December 31, 2005	$ 5.6	$ —	$10.0	$ 2.0	$17.6

The remaining carrying value of fixed assets remaining for sale in connection with the 2005 North American business consolidation activities was $5.3 million at December 31, 2005.

International Packaging

The company recorded $9.3 million of earnings in 2005, primarily related to the final settlement of tax obligations, and an adjustment to reclassify an asset to be put in service previously held for sale, related to a $237.7 million business consolidation charge taken in the second quarter of 2001. Tax clearances from the applicable authorities were required during the formal liquidation process. These matters have been concluded.

2004

North American Metal Food Packaging

In the fourth quarter of 2004, a gain of $0.4 million was recorded, as costs were less than estimated for the 2003 closure of a metal food container plant.

North American Plastic Packaging

In the third quarter, earnings of $0.7 million were recorded as costs related to the shut down and relocation of the Atlanta plastics offices and research and development (R&D) facility were less than expected. The office relocation was completed during 2003 and the R&D facility relocation was completed in 2004.

International Packaging

The company recorded $13.7 million of earnings in 2004, primarily related to the realization of assets in the PRC in excess of amounts previously estimated, and costs of consolidation and liquidation less than anticipated, related to a $237.7 million business consolidation charge taken in the second quarter of 2001.

Aerospace and Technologies

Earnings of $0.4 million were recorded in the fourth quarter of 2004 for exit costs that were no longer required due to the sale of a product line whose operations ceased in 2001.

2003

North American Metal Beverage

A gain of $1.6 million was recorded in the fourth quarter in connection with the sale, and the completion of the consolidation activities, related to a metal beverage container plant closed in December 2001.

North American Metal Food

In the first quarter Ball announced plans to close a metal food container plant to address decreased demand for three-piece welded cans. In connection with the closure, a charge of $1.9 million was recorded, partially offset by a $0.5 million gain on the sale of a Canadian plant that was included in a business consolidation charge taken in 2000. The $1.9 million charge included $0.8 million for employee severance and benefit costs and $1.1 million for decommissioning costs and an impairment charge on fixed assets.

International Packaging

Ball Packaging Europe closed its plant in Runcorn, England, at the end of December 2003. The cost of the plant closure, along with costs associated with a line conversion and a line shut down at other plants, estimated to be €11.9 million in total, was accounted for in the opening acquisition balance sheet. These costs included €8.7 million for employee termination costs and €3.2 million for decommissioning costs, of which €10.5 million was paid and €0.6 million was reversed to goodwill as costs were less than initially estimated. The remaining balance of €0.8 million is for early retirement benefits to be paid under local law in future periods. There are no remaining assets held for sale at December 31, 2005.

The company recorded $3.3 million of earnings in 2003, primarily related to the realization of assets in the PRC in excess of amounts previously estimated, and costs of consolidation and liquidation less than anticipated, related to a $237.7 million business consolidation charge taken in the second quarter of 2001.

Aerospace and Technologies

Earnings of $0.2 million in the third quarter of 2003 for exit costs that were no longer required due to the sale of a product line whose operations ceased in 2001.

8 (In Part): Goodwill

($ in millions)	North American Metal Beverage Packaging	North American Metal Food Packaging	North American Plastic Packaging	International Packaging	Total
Balance at December 31, 2004	$298.2	$28.2	$31.8	$1,051.8	$1,410.0
Purchase accounting and other adjustments	(9.5)	—	1.4	(4.0)	(12.1)
Effects of foreign currency exchange rates	(9.3)	—	—	(130.0)	(139.3)
Balance at December 31, 2005	$279.4	$28.2	$33.2	$ 917.8	$1,258.6

1.25

EATON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Goodwill & Other Intangible Assets (In Part)

A summary of goodwill follows:

	2005	2004
Electrical	$1,016	$ 944
Fluid Power	1,811	1,235
Truck	145	133
Automotive	167	121
	$3,139	$2,433

Business Segment & Geographic Region Information

Eaton is a diversified industrial manufacturer having 2005 sales of $11.1 billion. The Company is a global leader in the design, manufacture, marketing and servicing of electrical systems and components for power quality, distribution and control; fluid power systems and services for industrial, mobile and aircraft equipment; intelligent truck drivetrain systems for safety and fuel economy; and automotive engine air management systems, powertrain solutions and specialty controls for performance, fuel economy and safety. The Company had 59,000 employees at the end of 2005 and sells products to customers in more than 125 countries. Major products included in each business segment and other information follows.

Electrical

Low and medium voltage power distribution and control products that meet ANSI/NEMA and IEC standards; a wide range of circuit breakers, and a variety of assemblies and components used in managing distribution of electricity to industrial, utility, light commercial, residential and OEM markets; drives, contactors, starters, power factor and harmonic correction; a wide range of sensors used for position sensing; a full range of operator interface hardware and software for interfacing with machines, and other motor control products used in the control and protection of electrical power distribution systems; a full range of AC and DC Uninterruptible Power Systems (UPS); power management software, remote monitoring, turnkey integration services and site support engineering services for electrical power and control systems.

Fluid Power

All pressure ranges of hose, fittings, adapters, couplings and other fluid power connectors; hydraulic pumps, motors, valves, cylinders, power steering units, tube connectors, fittings, transaxles and transmissions; electronic and hydraulic controls; electric motors and drives; filtration products and fluid-evaluation products and services; aerospace products and systems—hydraulic and electrohydraulic pumps, and integrated system packages, hydraulic and electromechanical actuators, flap and slat systems, nose wheel steering systems, cockpit controls, power and load management systems, sensors, fluid debris monitoring products, illuminated displays, integrated displays and panels, relays, valves, sealing and pneumatic systems for large commercial aircraft and regional jets, products for aircraft engines, fuel systems, cabin air and de-icing systems, hydraulic systems, low-pressure airframe fuel systems, electromechanical actuation, air ducting, hydraulic and power generation, and fluid distribution systems for fuel, hydraulics and air; filtration systems, industrial equipment, clutches and brakes for industrial machines; golf grips and precision molded and extruded plastic products

Truck

Heavy-, medium- and light-duty and agricultural mechanical transmissions; heavy- and medium-duty automated transmissions; heavy-and medium-duty clutches; and a variety of other products including gears and shafts, transfer boxes, gearshift mechanisms, rotors, electronic diagnostic equipment for commercial vehicles, and collision warning systems.

Automotive

Engine valves, valve actuation components, engine displacement control components, advanced valvetrain systems to enhance fuel economy and emissions, cylinder heads, superchargers, superturbo compounding, limited slip and locking differentials, electronically controlled traction modification devices, precision gear forgings, compressor control clutches for mobile refrigeration, mirror actuators, transmission controls, on-board vapor recovery systems, fuel level senders, exhaust gas recirculation valves for heavy-duty engines, flow and pressure controls for direct injection diesel engines, turbocharger waste gate controls, and intake manifold control valves.

Other Information

The principal markets for the Electrical segment are industrial, construction, commercial, automotive and government customers. These customers are generally concentrated in North America, Europe and Asia/Pacific; however, sales are made globally. Sales are made directly by Eaton and indirectly through distributors and manufacturers' representatives to such customers.

The principal markets for the Fluid Power, Truck and Automotive segments are original equipment manufacturers and after-market customers of off-highway agricultural and construction vehicles, industrial equipment, heavy-, medium- and light-duty trucks, passenger cars, and customers involved with aerospace products and systems. These manufacturers are located globally and most sales of these products are made directly to such manufacturers.

No single customer represented more than 10% of net sales in 2005, 2004 or 2003. Sales from United States and Canadian operations to customers in foreign countries were $568 in 2005, $504 in 2004 and $437 in 2003 (5% of sales in 2005, 2004, and 2003).

The accounting policies of the business segments are generally the same as the policies described under "Accounting Policies" above, except that inventories and related cost of products sold of the segments are accounted for using the FIFO method and operating profit only reflects the service cost component related to pensions and other postretirement benefits. Intersegment sales and transfers are accounted for at the same prices as if the sales and transfers were made to third parties.

In accordance with SFAS No. 131, for purposes of business segment performance measurement, the Company does not allocate to the business segments items that are of a non-operating nature or corporate organizational and functional expenses of a governance nature. Corporate expenses consist of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs. Identifiable assets of the business segments exclude goodwill, other intangible assets, and general corporate assets, which principally consist of cash, short-term investments, deferred income taxes, certain accounts receivable, certain property, plant and equipment, and certain other assets.

Geographic Region Information

	Net Sales	Segment Operating Profit	Long-Lived Assets
2005			
United States	$ 7,699	$1,021	$1,191
Canada	315	48	16
Europe	2,147	114	533
Latin America	1,036	136	298
Asia/Pacific	797	80	137
Eliminations	(879)		
	$11,115		$2,175
2004			
United States	$ 6,843	$ 780	$1,215
Canada	261	37	16
Europe	1,990	150	547
Latin America	774	107	244
Asia/Pacific	679	79	125
Eliminations	(730)		
	$ 9,817		$2,147
2003			
United States	$ 5,758	$ 546	$1,264
Canada	209	28	16
Europe	1,581	94	491
Latin America	516	65	205
Asia/Pacific	504	64	100
Eliminations	(507)		
	$ 8,061		$2,076

Net sales and segment operating profit are attributed to geographical regions based upon the location of the selling unit. Long-lived assets consist of property, plant and equipment-net.

Segment operating profit was reduced by restructuring charges as follows:

	2005	2004	2003
United States	$17	$22	$22
Europe	7	18	11
Latin America	4		
Asia/Pacific	8	1	3
	$36	$41	$36

Business Segment Information

	2005	2004	2003
Net sales			
Electrical	$ 3,758	$3,072	$2,313
Fluid power	3,240	3,098	2,786
Truck	2,288	1,800	1,272
Automotive	1,829	1,847	1,690
	$11,115	$9,817	$8,061
Operating profit			
Electrical	$ 375	$ 243	$ 158
Fluid power	339	338	247
Truck	453	329	168
Automotive	232	243	224
Corporate			
Amortization of intangible assets	(30)	(25)	(21)
Interest expense—net	(90)	(78)	(87)
Minority interest	(5)	(7)	(12)
Pension & other postretirement benefit expense	(120)	(75)	(52)
Provision to exit a business		(15)	
Other corporate expense—net	(158)	(172)	(117)
Income before income taxes	996	781	508
Income taxes	191	133	122
Net income	$ 805	$ 648	$ 386
Income before income taxes was reduced by restructuring charges as follows:			
Electrical	$ 21	$ 33	$ 22
Fluid power	7	8	14
Truck	4		
Automotive	4		
Corporate			1
	$ 36	$ 41	$ 37

	2005	2004	2003
Identifiable assets			
Electrical	$ 1,454	$1,469	$1,072
Fluid power	1,787	1,527	1,422
Truck	1,064	940	690
Automotive	960	974	872
	5,265	4,910	4,056
Goodwill	3,139	2,433	2,095
Other intangible assets	626	644	541
Corporate	1,188	1,088	1,531
Total assets	$10,218	$9,075	$8,223
Expenditures for property, plant & equipment			
Electrical	$ 59	$ 55	$ 37
Fluid power	76	83	60
Truck	99	90	71
Automotive	108	91	86
	342	319	254
Corporate	21	11	19
	$ 363	$ 330	$ 273
Depreciation of property, plant & equipment			
Electrical	$ 84	$ 83	$ 80
Fluid power	94	91	92
Truck	70	61	54
Automotive	89	84	77
	337	319	303
Corporate	19	23	19
	$ 356	$ 342	$ 322

1.26

KIMBERLY-CLARK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Acquisitions and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by business segment are as follows:

(Millions of dollars)	Personal Care	Consumer Tissue	Business-to-Business	Total
Balance at January 1, 2004	$514.8	$594.1	$1,540.2	$2,649.1
Currency and other	28.3	16.4	9.1	53.8
Balance at December 31, 2004	543.1	610.5	1,549.3	2,702.9
Acquisitions	—	—	3.9	3.9
Currency and other	(13.3)	(5.0)	(2.9)	(21.2)
Balance at December 31, 2005	$529.8	$605.5	$1,550.3	$2,685.6

Note 17. Business Segment and Geographic Data Information

The Corporation is organized into operating segments based on product groupings. These operating segments have been aggregated into three reportable global business segments: Personal Care; Consumer Tissue; and Business-to-Business. The reportable segments were determined in accordance with how the Corporation's executive managers develop and execute the Corporation's global strategies to drive growth and profitability of the Corporation's worldwide Personal Care, Consumer Tissue and Business-to-Business operations. These strategies include global plans for branding and product positioning, technology, research and development programs, cost reductions including supply chain management, and capacity and capital investments for each of these businesses. Segment management is evaluated on several factors, including operating profit. Segment operating profit excludes other income and (expense), net; income and expense not associated with the business segments; and the costs of corporate decisions related to the strategic cost reductions included in the Competitive Improvement Initiatives. Corporate & Other includes the costs of the strategic cost reductions described in Note 3. Corporate & Other assets include the Corporation's investments in equity affiliates, finance operations and real estate entities, and deferred tax assets. The accounting policies of the reportable segments are the same as those described in Note 1.

The principal sources of revenue in each global business segment are described below.

- The Personal Care segment manufactures and markets disposable diapers, training and youth pants, and swimpants; baby wipes; feminine and incontinence care products; and related products. Products in this segment are primarily for household use and are sold under a variety of brand names, including Huggies, Pull-Ups, Little Swimmers, GoodNites, Kotex, Lightdays, Depend, Poise and other brand names.
- The Consumer Tissue segment manufactures and markets facial and bathroom tissue, paper towels, napkins and related products for household use. Products in this segment are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Hakle, Page and other brand names.
- The Business-to-Business segment manufactures and markets disposable, single-use, health and hygiene products to the away-from-home marketplace. These products include facial and bathroom tissue, paper towels, napkins, wipers, surgical gowns, drapes, infection control products, sterilization wrap, disposable face masks and exam gloves, respiratory products, other disposable medical products and other products. Products in this segment are sold under the Kimberly-Clark, Kleenex, Scott, Kimwipes, WypAll, Surpass, Safeskin, Tecnol, Ballard and other brand names.

Approximately 13 percent of net sales were to Wal-Mart Stores, Inc. in 2005, 2004 and 2003, primarily in the Personal Care and Consumer Tissue businesses.

Information concerning consolidated operations by business segment and geographic area, as well as data for equity companies, is presented in the following tables:

CONSOLIDATED OPERATIONS BY BUSINESS SEGMENT

(Millions of dollars)	Personal Care	Consumer Tissue	Business-to-Business	Intersegment Sales	Corporate & Other	Consolidated Total
Net sales						
2005	$6,287.4	$5,781.3	$3,821.8	$ (19.3)	$ 31.4	$15,902.6
2004	5,975.1	5,343.0	3,957.9	(217.1)	24.3	15,083.2
2003	5,652.9	5,046.7	3,477.7	(154.7)	3.7	14,026.3
Operating profit[(a)]						
2005	1,242.2	805.8	673.2	—	(410.6)	2,310.6
2004	1,253.2	803.1	656.6	—	(206.5)	2,506.4
2003	1,221.0	728.2	602.8	—	(220.4)	2,331.6
Depreciation and amortization						
2005	267.4	301.0	188.1	—	88.0	844.5
2004	286.9	310.7	194.0	—	8.7	800.3
2003	264.4	300.2	178.2	—	2.5	745.3
Assets[(b)]						
2005	4,650.7	5,672.9	4,578.9	—	1,400.7	16,303.2
2004	4,813.3	5,881.5	4,745.2	—	1,578.0	17,018.0
2003	4,781.9	5,796.5	4,850.1	—	1,351.4	16,779.9
Capital spending						
2005	297.9	296.6	115.0	—	.1	709.6
2004	242.5	202.3	89.4	—	.8	535.0
2003	344.4	366.6	141.0	—	20.9	872.9

(a) Corporate & Other includes costs aggregating $228.6 million in 2005 for the Competitive Improvement Initiatives. On a business segment basis, actual costs recorded in 2005 for these initiatives relate to activities in Personal Care ($146.0 million), Consumer Tissue ($31.3 million) and Business-to-Business ($51.3 million). Additional information concerning these costs is contained in Note 3. In addition, Corporate & Other includes expenses not associated with the business segments.

Segment operating profit also excludes other income (expense), net and income and expenses not associated with the business segments.

(b) Data for 2003 does not reflect the Spin-off. Segment assets exclude assets not allocated to business segments.

SALES OF PRINCIPAL PRODUCTS

(Billions of dollars)	2005	2004	2003
Consumer tissue products	$ 5.7	$ 5.3	$ 4.8
Diapers	3.3	3.2	3.0
Away-from-home professional products	2.4	2.3	2.1
All other	4.5	4.3	4.1
Consolidated	$15.9	$15.1	$14.0

CONSOLIDATED OPERATIONS BY GEOGRAPHIC AREA

(Millions of dollars)	United States	Canada	Inter-geographic Items[(a)]	Total North America	Europe	Asia, Latin America & Other	Inter-geographic Items	Corporate & Other	Consolidated Total
Net sales									
2005	$9,093.1	$516.4	$(254.7)	$9,354.8	$3,072.8	$4,019.2	$(544.2)	$ —	$15,902.6
2004	8,683.5	911.0	(554.4)	9,040.1	3,098.3	3,488.8	(544.0)	—	15,083.2
2003	8,335.8	801.8	(515.6)	8,622.0	2,892.5	3,061.6	(549.8)	—	14,026.3
Operating profit[(b)]									
2005	1,973.5	107.7	—	2,081.2	165.9	474.1	—	(410.6)	2,310.6
2004	1,953.1	122.0	—	2,075.1	221.0	416.8	—	(206.5)	2,506.4
2003	1,862.7	131.7	—	1,994.4	202.9	354.7	—	(220.4)	2,331.6
Net property[(c)]									
2005	4,082.0	82.1	—	4,164.1	1,529.5	1,801.1	—	—	7,494.7
2004	4,177.8	103.5	—	4,281.3	1,875.2	1,834.0	—	—	7,990.5
2003	4,379.9	348.2	—	4,728.1	1,809.3	1,726.0	—	—	8,263.4

[(a)] Intergeographic net sales include $59.4 million, $368.0 million and $345.4 million by operations in Canada to the U.S. in 2005, 2004 and 2003, respectively.

[(b)] Corporate & Other includes the costs of the 2005 Competitive Improvement Initiatives aggregating $228.6 million in 2005. On a geographical basis, actual costs recorded in 2005 for these initiatives relate to activities in North America ($84.9 million), Europe ($113.5 million) and Asia, Latin America and Other ($30.2 million).

Geographic operating profit also excludes other income (expense), net and income and expenses not associated with geographic areas.

[(c)] Data for 2003 does not reflect the Spin-off.

EQUITY COMPANIES' DATA

(Millions of dollars)	Net Sales	Gross Profit	Operating Profit	Net Income	Corporation's Share of Net Income
2005	$2,115.0	$730.0	$441.2	$286.1	$136.6
2004	1,823.0	635.1	433.3	261.1	124.8
2003[(a)]	1,750.1	630.3	388.3	224.4	107.0

[(a)] As of August 2003, the Corporation consolidated Klabin-Kimberly S.A., its Brazilian affiliate.

(Millions of dollars)	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Stock-holders' Equity
2005	$869.7	$992.1	$564.6	$513.4	$783.9
2004	821.7	931.1	525.5	475.5	751.9
2003	716.7	925.7	386.7	531.6	724.2

Equity companies, primarily in Latin America, are principally engaged in operations in the Personal Care and Consumer Tissue businesses.

At December 31, 2005, the Corporation's equity companies and ownership interest were as follows: Kimberly-Clark Lever, Ltd. (India) (50%), Kimberly-Clark de Mexico, S.A. de C.V. and subsidiaries (47.9%), Olayan Kimberly-Clark Arabia (49%), Olayan Kimberly-Clark (Bahrain) WLL (49%) and Tecnosur S.A. (Colombia) (34.3%).

Kimberly-Clark de Mexico, S.A. de C.V. is partially owned by the public and its stock is publicly traded in Mexico. At December 31, 2005, the Corporation's investment in this equity company was $396.3 million, and the estimated fair value of the investment was $2.0 billion based on the market price of publicly traded shares.

1.27

NEWMONT MINING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 8 (In Part): Goodwill

The carrying amount of goodwill by reporting unit as of December 31, 2005 and 2004 and changes in the carrying amount of goodwill are summarized in the following table:

	Nevada	Australia/New Zealand	Exploration	Merchant Banking	Consolidated
Balance at January 1, 2004	$ 41	$247	$1,129	$1,593	$3,010
Change in estimate of pre-acquisition tax contingencies	—	(4)	—	40	36
Pajingo impairment charge	—	(52)	—	—	(52)
Balance at December 31, 2004	41	191	1,129	1,633	2,994
Change in estimate of pre-acquisition tax contingencies	—	—	(3)	(71)	(74)
Nevada impairment charge	(41)	—	—	—	(41)
Balance at December 31, 2005	$ —	$191	$1,126	$1,562	$2,879

During 2005, annual testing for impairment pursuant to SFAS No. 142 (comparison of implied goodwill value to carrying value) resulted in an impairment charge against goodwill for the Nevada Segment of $41. The impairment resulted from a reevaluation of future production and operating costs that indicated higher future operating and capital costs. The Company also adjusted the tax basis of certain assets originally recorded as part of the purchase price allocation for the acquisition of Normandy. The adjustment to goodwill in the Merchant Banking Segment reflects the resolution of certain tax contingencies established as part of the purchase price allocation relating to the acquisition of Franco-Nevada.

During 2004, annual testing for impairment pursuant to SFAS No. 142 (comparison of implied goodwill value to carrying value) resulted in an impairment charge against goodwill for the Pajingo operation (Australia/New Zealand Segment) of $52. The impairment resulted from a reevaluation of future production and operating costs that indicated lower grade material and higher future operating costs. The Company also adjusted valuation allowances, originally recorded as part of the purchase price allocation for the acquisitions of Normandy and Franco-Nevada, for deferred tax assets related to capital loss carry-forwards in the Australia/New Zealand Segment for the Tanami operation and in the Merchant Banking Segment.

Note 28. Segment and Related Information

Newmont predominantly operates in a single industry, namely exploration for and production of gold. Newmont's major operations include Nevada, Yanacocha, Batu Hijau and Australia/New Zealand. Newmont also has an Exploration Segment and a Merchant Banking Segment.

The Exploration Segment is responsible for all activities, regardless of location, associated with the Company's efforts to discover new mineralized material that will advance into proven and probable reserves.

Merchant Banking activities include the development of value optimization strategies for operating and non-operating assets, managing the equity investment portfolio, business development activities related to potential merger and acquisition analysis and negotiations, managing and building the royalty business, managing the investments in the downstream gold refining and distribution business, mobilizing and monetizing inactive exploration properties, capitalizing on Newmont's proprietary technology know-how and acting as an internal resource for other corporate divisions to improve and maximize business outcomes. For segment reporting purposes, the Merchant Banking Segment is considered to be a separate operating segment because it engages in activities from which it earns revenues and incurs expenses and its operating results are regularly and separately reviewed by the Chief Operating Decision Maker.

The Company identifies its reportable segments as those consolidated mining operations or functional groups that represent more than 10% of the combined revenue, profit or loss or total assets of all reported operating segments. Consolidated mining operations or functional groups not meeting this threshold are aggregated at the applicable geographic or corporate level for segment reporting purposes. Earnings from operations do not reflect general corporate expenses, interest (except project-specific interest) or income taxes (except for equity investments). Intercompany revenue and expense amounts have been eliminated within each segment in order to report on the basis that management uses internally for evaluating segment performance.

During 2005, Newmont made certain reclassifications in its segment reporting presentation for 2004 and 2003 to conform to changes in presentation reflected in management reporting. Newmont's segments have been presented for 2005, 2004 and 2003 as follows:

- The Other Operations reportable segment includes the Golden Giant, Zarafshan, La Herradura, Kori Kollo, Minahasa, Ovacik and Mesquite gold operations.
- The Golden Grove copper operation and the Holloway gold operation have been reclassified to discontinued operations for all periods presented.

2005

	Nevada	Yanacocha	Australia/ New Zealand	Batu Hijau	Other Operations	Total Operations
Sales, net:						
Gold	$1,053	$1,490	$ 718	$ 318	$208	$3,787
Copper	$ —	$ —	$ —	$ 672	$ —	$ 672
Cost applicable to sales:						
Gold	$ 807	$ 487	$ 508	$ 109	$106	$2,017
Copper	$ —	$ —	$ —	$ 303	$ —	$ 303
Depreciation, depletion and amortization:						
Gold	$ 124	$ 205	$ 118	$ 34	$ 29	$ 510
Copper	$ —	$ —	$ —	$ 87	$ —	$ 87
Other	$ —	$ —	$ 3	$ —	$ 3	$ 6
Exploration	$ 17	$ 6	$ 19	$ —	$ 14	$ 56
Advanced projects, research and development	$ —	$ 8	$ —	$ 2	$ 27	$ 37
Write-down of goodwill	$ 41	$ —	$ —	$ —	$ —	$ 41
Write-down of long-lived assets	$ —	$ —	$ 2	$ —	$ 38	$ 40
Other income	$ 8	$ 9	$ 7	$ 7	$ 6	$ 37
Interest expense, net	$ —	$ 1	$ —	$ 43	$ 1	$ 45
Pre-tax income (loss) before minority interest and equity income of affiliates	$ 44	$ 793	$ 62	$ 419	$ (12)	$1,306
Equity income of affiliates	$ —	$ —	$ —	$ —	$ —	$ —
Amortization of deferred (advanced) stripping, net	$ (47)	$ —	$ (7)	$ 1	$ (3)	$ (56)
Capital expenditures	$ 479	$ 225	$ 98	$ 65	$306	$1,173
Deferred stripping	$ 149	$ —	$ 19	$ (107)	$ 10	$ 71
Goodwill	$ —	$ —	$ 191	$ —	$ —	$ 191
Total assets	$2,073	$1,575	$1,060	$2,251	$893	$7,852

	Total Operations	Exploration	Merchant Banking	Corporate and Other	Consolidated
Sales, net:					
Gold	$3,787	$ —	$ —	$ (53)	$ 3,734
Copper	$ 672	$ —	$ —	$ —	$ 672
Cost applicable to sales:					
Gold	$2,017	$ —	$ —	$ —	$ 2,017
Copper	$ 303	$ —	$ —	$ —	$ 303
Depreciation, depletion and amortization:					
Gold	$ 510	$ —	$ —	$ —	$ 510
Copper	$ 87	$ —	$ —	$ —	$ 87
Other	$ 6	$ —	$ 21	$ 20	$ 47
Exploration	$ 56	$ 91	$ —	$ —	$ 147
Advanced projects, research and development	$ 37	$ —	$ 16	$ 20	$ 73
Write-down of goodwill	$ 41	$ —	$ —	$ —	$ 41
Write-down of long-lived assets	$ 40	$ —	$ —	$ 3	$ 43
Other income	$ 37	$ —	$ 174	$ 58	$ 269
Interest expense, net	$ 45	$ —	$ —	$ 53	$ 98
Pre-tax income (loss) before minority interest and equity income of affiliates	$1,306	$ (91)	$ 136	$ (287)	$ 1,064
Equity income of affiliates	$ —	$ —	$ 4	$ —	$ 4
Amortization of deferred (advanced) stripping, net	$ (56)	$ —	$ —	$ —	$ (56)
Capital expenditures	$1,173	$ —	$ 4	$ 49	$ 1,226
Deferred stripping	$ 71	$ —	$ —	$ —	$ 71
Goodwill	$ 191	$1,126	$1,562	$ —	$ 2,879
Total assets from continuing operations	$7,852	$1,131	$2,675	$2,260	$13,918
Assets held for sale					$ 74
Total assets					$13,992

2004

	Nevada	Yanacocha	Australia/ New Zealand	Batu Hijau	Other Operations	Total Operations
Sales, net:						
Gold	$1,037	$1,250	$ 779	$ 288	$264	$3,618
Copper	$ —	$ —	$ —	$ 786	$ —	$ 786
Cost applicable to sales:						
Gold	$ 716	$ 432	$ 528	$ 91	$143	$1,910
Copper	$ —	$ —	$ —	$ 305	$ —	$ 305
Depreciation, depletion and amortization:						
Gold	$ 127	$ 198	$ 126	$ 28	$ 47	$ 526
Copper	$ —	$ —	$ —	$ 90	$ —	$ 90
Other	$ —	$ —	$ 4	$ —	$ 4	$ 8
Exploration	$ 14	$ 4	$ 15	$ —	$ 1	$ 34
Advanced projects, research and development	$ 6	$ 16	$ —	$ —	$ 29	$ 51
Write-down of goodwill	$ —	$ —	$ 52	$ —	$ —	$ 52
Write-down of long-lived assets	$ —	$ 4	$ 14	$ —	$ 18	$ 36
Other income	$ 7	$ 4	$ 18	$ 3	$ —	$ 32
Interest expense, net	$ —	$ 1	$ —	$ 43	$ 1	$ 45
Pre-tax income (loss) before minority interest and equity income of affiliates	$ 185	$ 597	$ 49	$ 524	$ (2)	$1,353
Equity income of affiliates	$ —	$ —	$ —	$ —	$ —	$ —
Cumulative effect of a change in accounting principle, net of tax	$ —	$ —	$ —	$ (84)	$ —	$ (84)
Amortization of deferred (advanced) stripping, net	$ (39)	$ —	$ 8	$ 38	$ (3)	$ 4
Capital expenditures	$ 169	$ 232	$ 89	$ 35	$120	$ 645
Deferred stripping	$ 101	$ —	$ 12	$ (105)	$ 11	$ 19
Goodwill	$ 41	$ —	$ 191	$ —	$ —	$ 232
Total assets from continuing operations	$1,614	$1,201	$1,066	$2,134	$700	$6,715

	Total Operations	Exploration	Merchant Banking	Corporate and Other	Consolidated
Sales, net:					
Gold	$3,618	$ —	$ —	$ 7	$ 3,625
Copper	$ 786	$ —	$ —	$ —	$ 786
Cost applicable to sales:					
Gold	$1,910	$ —	$ —	$ —	$ 1,910
Copper	$ 305	$ —	$ —	$ —	$ 305
Depreciation, depletion and amortization:					
Gold	$ 526	$ —	$ —	$ —	$ 526
Copper	$ 90	$ —	$ —	$ —	$ 90
Other	$ 8	$ —	$ 24	$ 14	$ 46
Exploration	$ 34	$ 73	$ —	$ —	$ 107
Advanced projects, research and development	$ 51	$ —	$ 7	$ 22	$ 80
Write-down of goodwill	$ 52	$ —	$ —	$ —	$ 52
Write-down of long-lived assets	$ 36	$ —	$ 1	$ 2	$ 39
Other income	$ 32	$ —	$ 41	$ 29	$ 102
Interest expense, net	$ 45	$ —	$ —	$ 53	$ 98
Pre-tax income (loss) before minority interest and equity income of affiliates	$1,353	$ (74)	$ 6	$ (174)	$ 1,111
Equity income of affiliates	$ —	$ —	$ 2	$ —	$ 2
Cumulative effect of a change in accounting principle, net of tax	$ (84)	$ —	$ —	$ 37	$ (47)
Amortization of deferred (advanced) stripping, net	$ 4	$ —	$ —	$ —	$ 4
Capital expenditures	$ 645	$ —	$ 5	$ 33	$ 683
Deferred stripping	$ 19	$ —	$ —	$ —	$ 19
Goodwill	$ 232	$1,129	$1,633	$ —	$ 2,994
Total assets from continuing operations	$6,715	$1,147	$2,514	$2,116	$12,492
Assets held for sale					$ 284
Total assets					$12,776

2003

	Nevada	Yanacocha	Australia/ New Zealand	Batu Hijau	Other Operations	Total Operations
Sales, net:						
Gold	$ 901	$1,037	$ 732	$—	$365	$3,035
Copper	$ —	$ —	$ —	$—	$ —	$ —
Cost applicable to sales:						
Gold	$ 598	$ 362	$ 484	$—	$190	$1,634
Copper	$ —	$ —	$ —	$—	$ —	$ —
Depreciation, depletion and amortization:						
Gold	$ 138	$ 160	$ 122	$—	$ 68	$ 488
Copper	$ —	$ —	$ —	$—	$ —	$ —
Other	$ —	$ —	$ 5	$—	$ 3	$ 8
Exploration	$ 17	$ 13	$ 13	$—	$ 1	$ 44
Advanced projects, research and development	$ —	$ —	$ —	$—	$ 16	$ 16
Write-down of long-lived assets	$ —	$ —	$ 2	$—	$ 28	$ 30
Other income	$ 2	$ —	$ 16	$—	$ —	$ 18
Interest expense, net	$ —	$ 3	$ —	$—	$ 1	$ 4
Pre-tax income (loss) before minority interest and equity income of affiliates	$ 150	$ 476	$ 60	$—	$ 47	$ 733
Equity income (loss) of affiliates	$ —	$ —	$ 1	$—	$ —	$ 1
Cumulative effect of a change in accounting principle, net of tax	$ (14)	$ (33)	$ (3)	$—	$ (9)	$ (59)
Amortization of deferred (advanced) stripping, net	$ (25)	$ —	$ (11)	$—	$ (1)	$ (37)
Capital expenditures	$ 112	$ 206	$ 101	$—	$ 39	$ 458
Deferred stripping	$ 62	$ —	$ 19	$—	$ 9	$ 90
Goodwill	$ 41	$ —	$ 247	$—	$ —	$ 288
Total assets from continuing operations	$1,491	$1,204	$1,327	$—	$606	$4,628

	Total Operations	Exploration	Merchant Banking	Corporate and Other	Consolidated
Sales, net:					
Gold	$3,035	$ —	$ —	$ 24	$ 3,059
Copper	$ —	$ —	$ —	$ —	$ —
Cost applicable to sales:					
Gold	$1,634	$ —	$ —	$ —	$ 1,634
Copper	$ —	$ —	$ —	$ —	$ —
Depreciation, depletion and amortization:					
Gold	$ 488	$ —	$ —	$ —	$ 488
Copper	$ —	$ —	$ —	$ —	$ —
Other	$ 8	$ —	$ 26	$ 8	$ 42
Exploration	$ 44	$ 32	$ —	$ —	$ 76
Advanced project, research and development	$ 16	$ —	$ 7	$ 12	$ 35
Write-down of long-lived assets	$ 30	$ —	$ 2	$ 3	$ 35
Other income	$ 18	$ —	$ 296	$ 137	$ 451
Interest expense, net	$ 4	$ —	$ 1	$ 84	$ 89
Pre-tax income (loss) before minority interest and equity income of affiliates	$ 733	$ (36)	$ 301	$ (67)	$ 931
Equity income (loss) of affiliates	$ 1	$ —	$ —	$ (36)	$ (35)
Cumulative effect of a change in accounting principle, net of tax	$ (59)	$ —	$ —	$ 24	$ (35)
Amortization of deferred (advanced) stripping, net	$ (37)	$ —	$ —	$ —	$ (37)
Capital expenditures	$ 458	$ 1	$ 2	$ 23	$ 484
Deferred stripping	$ 90	$ —	$ —	$ —	$ 90
Goodwill	$ 288	$1,129	$1,593	$ —	$ 3,010
Total assets from continuing operations	$4,628	$1,183	$2,091	$2,495	$10,397
Assets held for sale					$ 301
Total assets					$10,698

Revenues from export and domestic sales were as follows:

	2005	2004	2003
Europe	$3,486	$3,684	$2,911
India	277	22	—
Japan	267	312	—
Korea	172	168	—
United States	—	97	5
Other	204	128	143
	$4,406	$4,411	$3,059

Long-lived assets, excluding deferred tax assets, in the United States and other countries are as follows:

	2005	2004	2003
United States[1]	$ 5,605	$5,023	$4,275
Australia	700	925	1,256
Canada	316	157	159
Indonesia	1,808	1,858	799
Peru	1,110	1,008	920
Other	900	618	528
	$10,439	$9,589	$7,937

[1] Goodwill allocated to Exploration and Merchant Banking (see Note 8) is global in nature and has been allocated to the United States, the Company's headquarters.

The Company is not economically dependent on a limited number of customers for the sale of its product because gold can be sold through numerous gold market traders worldwide. In 2005, sales to one customer, Bank of Nova Scotia, totaled approximately $1,214 or 28% of total sales. In 2004, sales to two customers, Bank of Nova Scotia and Barclays, totaled approximately $1,056 and $1,137, respectively, or 25% of total sales, each. In 2003, sales to one customer. Bank of Nova Scotia, totaled approximately $1,455 or 48% of total sales.

NATURAL BUSINESS YEAR

1.28 A natural business year is the period of 12 consecutive months which ends when the business activities of an entity have reached the lowest point in their annual cycle. In many instances, the natural business year of a company ends December 31.

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

1.30 For 2005, 171 survey companies were on a 52–53 week fiscal year. During 2005, one survey company changed the date of their fiscal year end. Examples of fiscal year end changes and of fiscal year definitions follow.

1.31

TABLE 1-4: MONTH OF FISCAL YEAR END

	2005	**2004**	**2003**	**2002**
January	30	30	30	31
February	8	8	9	9
March	17	17	16	16
April	8	9	8	7
May	18	18	18	21
June	41	41	49	49
July	13	11	8	8
August	12	11	14	14
September	49	44	42	42
October	17	19	17	16
November	12	12	13	13
Subtotal	**225**	**220**	**224**	**226**
December	375	380	376	374
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

1.32

THE WALT DISNEY COMPANY

Consolidated Statements of Income

	2005	2004	2003

Consolidated Balance Sheets

	October 1, 2005	September 30, 2004

Consolidated Statements of Cash Flows

	2005	2004	2003

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Reporting Period

Effective with the beginning of fiscal 2005 and in connection with the completion of the Company's implementation of new company-wide accounting systems in late fiscal 2004, the Company changed its reporting period from a calendar period end to a period end that coincides with the cut-off of the Company's accounting systems. The accounting systems cut off on the Saturday closest to the calendar quarter end. Accordingly, fiscal 2005 began on October 1, 2004 and ended on October 1, 2005. This resulted in the same number of reporting days in each year, since fiscal 2004 included the additional day associated with the leap year. The change did not have a material impact on year-over-year earnings comparisons. Fiscal 2009 will be the first fifty-three week fiscal year following this change.

Definition of Fiscal Year

1.33

JACK IN THE BOX INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Organization and Summary of Significant Accounting Policies (In Part)

Basis of Presentation and Fiscal Year

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of any variable interest entities where we are deemed the primary beneficiary. All significant intercompany transactions are eliminated. Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the fiscal 2005 presentation. Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2005 and 2003 include 52 weeks, and fiscal year 2004 includes 53 weeks.

1.34

J.C. PENNEY COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year

Effective January 29, 2005, the Company changed its fiscal year end to the Saturday closest to January 31, to be in alignment with the fiscal calendar prevalently used in the retail industry. Historically, the Company's fiscal year has ended on the last Saturday in January. This change had no impact on fiscal 2004 or 2005 reported results. Fiscal 2006 will contain 53 weeks. Under the Company's historical reporting calendar, this would not have occurred until fiscal 2008. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year	Ended	Weeks
2005	January 28, 2006	52
2004	January 29, 2005	52
2003	January 31, 2004	53

The accounts of Lojas Renner S.A. (Renner), which are now included in Income/(Loss) from Discontinued Operations for all periods presented, were on a calendar-year basis.

1.35

THE NEW YORK TIMES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year end is the last Sunday in December. Each of the fiscal years 2005, 2004 and 2003 comprises 52 weeks. Unless specifically stated otherwise, all references to 2005, 2004 and 2003 refer to our fiscal years ended, or the dates as of, December 25, 2005, December 26, 2004 and December 28, 2003.

COMPARATIVE FINANCIAL STATEMENTS

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

1.37 In their annual reports, the survey companies usually present an income statement as the first financial statement. For 2005, 321 survey companies presented an income statement first followed by a balance sheet; 226 survey companies presented a balance sheet first followed by an income statement; 14 survey companies presented an income statement first followed by a statement of cash flows; and 21 survey companies presented an income statement first combined with a statement of comprehensive income or followed by a separate statement of comprehensive income.

1.38 The financial statements, with rare exception, were presented on consecutive pages. Certain survey companies did not present their financial statements on consecutive pages but interspersed the Management's Discussion and Analysis of Financial Condition and Results of Operations among the financial statements by having comments discussing the content of a financial statement follow the presentation of a financial statement. Such interspersed material was not covered by an auditor's report and was not presented in lieu of notes. For 2005, two survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

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

1.40

TABLE 1-5: ROUNDING OF AMOUNTS

	2005	2004	2003	2002
To nearest dollar	12	12	21	21
To nearest thousand dollars:				
Omitting 000	327	322	322	336
Presenting 000	2	3	5	4
To nearest million dollars	259	263	252	239
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

1.41 SEC Regulations S-X, *Accounting Rules—Form and Content of Financial Statements*, and *S-K*, and Statement on Auditing Standards (SAS) No. 32, *Adequacy of Disclosure in Financial Statements*, state the need for adequate disclosure in financial statements. Normally the financial statements alone cannot present all information necessary for adequate disclosure without considering appended notes which disclose information of the sort listed below:

Changes in accounting principles.
Retroactive adjustments.
Long-term lease agreements.
Assets subject to lien.
Preferred stock data.
Pension and retirement plans.
Restrictions on the availability of retained earnings for cash dividend purposes.
Contingencies and commitments.
Depreciation and depletion policies.
Stock option or stock purchase plans.
Consolidation policies.
Computation of earnings per share.
Subsequent events.
Quarterly data.
Segment information.
Financial instruments.

1.42 Table 1-6 summarizes the manner in which financial statements refer to notes. Notes on specific topics are illustrated in this publication in the sections dealing with such topics.

1.43

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	2005	2004	2003	2002
General reference only	511	514	509	514
General and direct references	89	86	91	85
Direct reference only	—	—	—	1
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

1.44 Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*, requires that the significant accounting policies of an entity be presented as an integral part of the financial statements of the entity. *APB Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies. *APB Opinion No. 22* states that the preferable format is to present a Summary of Significant Accounting Policies preceding notes to financial statements or as the initial note. During 2005, 467 survey companies presented the Summary of Significant Accounting Policies as either the first footnote or as a separate presentation following the last financial statement and preceding the footnotes. Of the remainder, most survey companies presented the Summary of Significant Accounting Policies as the second footnote following a footnote which described the nature of operations.

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

1.46

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Revenue recognition	586	586	587	584
Consolidation policy	578	572	572	576
Use of estimates	575	570	571	576
Property	574	565	562	556
Stock-based compensation	549	554	567	483
Cash equivalents	543	553	551	537
Depreciation methods	538	547	552	567
Impairment	533	526	503	540
Amortization of intangibles	528	515	512	509
Inventory pricing	509	514	518	522
Interperiod tax allocation	487	477	464	444
Financial instruments	479	496	505	487
Translation of foreign currency	440	436	441	420
Earnings per share calculation	376	370	402	386
Nature of operations	323	295	325	361
Advertising costs	283	273	271	250
Research and development costs	207	217	213	206
Credit risk concentrations	188	184	189	178
Fiscal years	168	166	176	181
Employee benefits	168	149	172	167
Environmental costs	137	134	138	133
Capitalization of interest	85	85	92	89

1.47

INTERFACE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Nature of Operations

The Company is a recognized leader in the worldwide commercial interiors market, offering modular and broadloom floorcoverings, interior fabrics and specialty products. The Company manufactures modular and broadloom carpet focusing on the high quality, designer-oriented sector of the market, and provides specialized carpet replacement, installation and maintenance services. The Company also produces interior fabrics and upholstery products. Additionally, the Company offers *Intersept*, a proprietary antimicrobial used in a number of interior finishes, and sponsors the Envirosense Consortium in its mission to address workplace environmental issues.

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses (as well as the results of operations of a small Australian dealer business and a small residential fabrics business), and in the third quarter 2004 the Company began to dispose of several of the dealer subsidiaries. The Company has now sold or terminated ongoing operations at each of its owned dealer businesses. In addition, in September 2003, the Company sold its U.S. raised/access flooring business. The results of operations and related disposal costs, gains and losses for these businesses were classified as discontinued operations for all periods presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions are eliminated. Investments in which the Company does not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. The Company monitors investments for other than temporary declines in value and makes reductions in carrying values when appropriate.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Examples include provisions for returns, bad debts, product claims reserves, rebates, estimates of costs to complete performance contracts, inventory obsolescence and the length of product life cycles, accruals associated with restructuring activities, income tax exposures and valuation allowances, environmental liabilities, carrying value of goodwill and property and equipment. Actual results could vary from these estimates.

Revenue Recognition

Revenue is recognized when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, price to the buyer is fixed and determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. Provisions for discounts, sales returns and allowances are estimated using historical experience, current economic trends, and the Company's quality performance. The related provision is recorded as a reduction of sales and cost of goods sold in the same period that the revenue is recognized. Material differences may result in the amount and timing of net sales for any period if management makes different judgments or uses different estimates.

Revenues and estimated profits on performance contracts, which are cost-type or fixed-fee contracts to sell and install the Company's flooring products, are recognized under the percentage of completion method of accounting using the cost-to-cost methodology. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Estimates are made of the costs to complete a contract and revenue is recognized based on the estimated progression to completion. Profit estimates are revised periodically based upon changes in facts. Any losses identified on contracts are recognized immediately.

Shipping and handling fees billed to customers are classified in net sales in the consolidated statements of operations. Shipping and handling costs incurred are classified in cost of sales in the consolidated statements of operations.

Research and Development

Research and development costs are expensed as incurred and are included in the selling, general and administrative expense caption in the consolidated statements of operations. Research and development expense was $9.6 million, $8.0 million, and $9.7 million for the years ended 2005, 2004 and 2003, respectively.

Cash, Cash Equivalents and Short-Term Investments

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments.

Cash payments for interest amounted to approximately $43.4 million, $42.1 million, and $43.2 million, for the years ended 2005, 2004, and 2003, respectively. Income tax payments amounted to approximately $14.3 million, $9.6 million, and $6.8 million for the years ended 2005, 2004, and 2003, respectively. During the years ended 2005, 2004, and 2003, the Company received income tax refunds of $0.1 million, $0.6 million, and $22.3 million, respectively.

Cash flows from discontinued operations are included in operating cash flows for all years presented, as there were no investing or financing activities related to these discontinued operations.

Inventories

Inventories are valued at lower of cost (standards approximating the first-in, first-out method) or market. Costs included in inventories are based on invoiced costs and/or production costs, as applicable. Included in production costs are material, direct labor and allocated overhead. The Company writes down inventories for the difference between the carrying value of the inventories and their estimated market value. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Management estimates its reserves for inventory obsolescence by continuously examining its inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for the Company's products, and current economic conditions. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the Company could experience additional inventory write-downs in the future.

Rebates

The Company has agreements to receive cash consideration from certain of its vendors, including rebates and cooperative marketing reimbursements. The amounts received from its vendors are generally presumed to be a reduction of the prices the Company pays for their products and, therefore, such amounts are reflected as either a reduction of cost of sales on the accompanying consolidated statements of operations, or, if the product inventory is still on hand at the reporting date, it is reflected as a reduction of "Inventories" on the accompanying consolidated balance sheets. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. The Company evaluates the likelihood of reaching purchase thresholds using past experience and current year forecasts. When rebates can be reasonably estimated, the Company records a portion of the rebate as the Company makes progress towards the purchase threshold.

When the Company receives direct reimbursements for costs incurred in marketing the vendor's product or service, the amount received is recorded as an offset to selling, general and administrative expenses on the accompanying consolidated statements of operations.

Assets and Liabilities of Businesses Held for Sale

The Company considers businesses to be held for sale when management approves and commits to a formal plan to actively market a business for sale and the sale is considered probable. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. The Company ceases to record depreciation expense at that time.

Property and Equipment and Long-Lived Assets

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements—ten to forty years; and furniture and equipment—three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs of approximately $0.9 million, $0.6 million, and $0.3 million for the fiscal years ended 2005, 2004, and 2003, respectively. Depreciation expense amounted to approximately $27.4 million, $27.7 million, and $29.1 million for the years ended 2005, 2004, and 2003, respectively. These amounts exclude depreciation expense of approximately zero, $2.1 million, and $3.1 million for 2005, 2004 and 2003, respectively, related to the discontinued operations of the Re:Source dealer businesses and U.S. raised/access flooring business.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. Repair and maintenance costs are charged to operating expense as incurred.

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" on December 31, 2001, goodwill was amortized on a straight-line basis over the periods benefited, principally twenty-five to forty years. Accumulated amortization amounted to approximately $77.3 million at both January 1, 2006 and January 2, 2005, and cumulative impairment losses recognized were $86.2 million as of both January 1, 2006 and January 2, 2005.

In June 2001, the Financial Accounting Standards Board ("FASB") finalized SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No.141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001, and to purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141.

The Company's previous business combinations were accounted for using the purchase method. As of January 1, 2006 and January 2, 2005 the net carrying amount of goodwill was $193.7 million and $205.9 million, respectively. Other intangible assets were $6.7 million and $4.8 million as of January 1, 2006 and January 2, 2005, respectively. Amortization expense during the years ended 2005, 2004 and 2003 was $0.6 million, $0.2 million and $0.2 million, respectively.

During the fourth quarter of 2005 and 2004, the Company performed the annual goodwill impairment test required by SFAS No. 142. In effecting the impairment testing, we used an outside consultant to help prepare valuations of reporting units in accordance with the applicable standards, and those valuations were compared with the respective book values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, past, present and future expectations of performance were considered. No additional impairment was indicated. However, an after-tax impairment charge of $29.0 million was recorded in fiscal year 2004 related to our discontinued Re:Source dealer businesses.

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2005" "2004," and "2003," mean the fiscal years ended January 1, 2006, January 2, 2005, and December 28, 2003, respectively. Fiscal years 2005, 2004 and 2003 comprised 52, 53, and 52 weeks, respectively.

1.48

MOHAWK INDUSTRIES, INC. (DEC)

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

1) Summary of Significant Accounting Policies

a) Basis of Presentation

The consolidated financial statements include the accounts of Mohawk Industries, Inc. and its subsidiaries (the "Company" or "Mohawk"). All significant intercompany balances and transactions have been eliminated in consolidation.

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

b) Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents.

c) Accounts Receivable and Revenue Recognition

The Company is principally a carpet, rugs, ceramic tile and laminate manufacturer and sells carpet, rugs, ceramic tile, natural stone, hardwood, resilient and laminate flooring products in the United States. In addition, the Company manufactures laminate and sells carpet, rugs and laminate flooring products in Europe principally for residential and commercial use. The Company grants credit to customers, most of whom are retail-flooring dealers and commercial end users, under credit terms that the Company believes are customary in the industry.

The Company warrants certain qualitative attributes of its flooring products. The Company has recorded a provision for estimated warranty and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience.

Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectibility can be reasonably assured. The Company provides allowances for expected cash discounts, returns, claims and doubtful accounts based upon historical bad debt and claims experience and periodic evaluations of specific customer accounts. Royalty revenues received from third parties for patents are recognized based on contractual agreements. The amount of patent revenue for the year ended December 31, 2005 was $10,461 and is recorded in net sales.

d) Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out method (LIFO) for approximately 86% (69% of total inventory) of the inventory within the Mohawk segment, which matches current costs with current revenues, and the first-in, first-out method (FIFO), which is used to value inventory within the Dal-Tile and Unilin segments and inventory not valued under the LIFO method in the Mohawk segment. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation for obsolescence. Actual results could differ from assumptions used to value obsolete inventory, excessive inventory or inventory expected to be sold below cost and additional reserves may be required.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost, including capitalized interest. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives, which are 25–35 years for buildings and improvements, 5–15 years for machinery and equipment, the shorter of the estimated useful life or lease term for leasehold improvements and 3–7 years for furniture and fixtures.

f) Goodwill and Other Intangible Assets

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" the Company tests goodwill and other intangible assets with indefinite lives for impairment on an annual basis (or on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value). The Company conducts testing for impairment during the fourth quarter of its fiscal year. Intangible assets that do not have indefinite lives are amortized based on average lives, which range from 7–16 years.

g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

h) Financial Instruments

The Company's financial instruments consist primarily of receivables, accounts payable, accrued expenses and long-term debt. The carrying amount of receivables, accounts payable and accrued expenses approximates its fair value because of the short-term maturity of such instruments. The carrying amount of the Company's floating rate debt approximates its fair value. Interest rates that are currently available to the Company for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of the Company's long-term debt. The estimated fair value of the Company's long-term debt at December 31, 2005 and 2004 was $3,282,715 and $961,120, compared to a carrying amount of $3,308,370 and $891,341, respectively.

i) Derivative Instruments

Accounting for Derivative Instruments and Hedging Activities requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives that are not qualifying hedges must be adjusted to fair value through earnings. If the derivative is a qualifying hedge, depending on the nature of the hedge, changes in its fair value are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company engages in activities that expose it to market risks, including the effects of changes in interest rates, exchange rates and natural gas commodity prices. Financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the interest rate, exchange rate and natural gas commodity markets may have on operating results. The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading purposes.

The Company formally documents hedging instruments and hedging items, as well as its risk management objective and strategy for undertaking hedged items. This process includes linking all derivatives that are designated as fair value and cash flow hedges to specific assets, liabilities or firm commitments on the consolidated balance sheet or to forecasted transactions. The Company also formally assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective, the derivative expires, or is sold, terminated, or exercised, or the derivative is discontinued because it is unlikely that a forecasted transaction will occur, the Company discontinues hedge accounting prospectively for that specific hedge instrument.

j) Advertising Costs and Vendor Consideration

Advertising and promotion expenses are charged to earnings during the period in which they are incurred. Advertising and promotion expenses included in selling, administrative, and general expenses were $41,339 in 2005, $31,474 in 2004 and $26,990 in 2003.

Vendor consideration, generally cash, is classified as a reduction of net sales, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. The Company makes various payments to customers, including slotting fees, advertising allowances, buy-downs and co-op advertising. All of these payments reduce gross sales with the exception of co-op advertising. Co-op advertising is classified as a selling, general and administrative expense in accordance with EITF 01-09. Co-op advertising expenses, a component of advertising and promotion expenses, were $14,408 in 2005, $10,389 in 2004 and $9,355 in 2003.

k) Impairment of Long-Lived Assets

Long-lived assets and intangibles subject to amortization are reviewed for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds the expected undiscounted cash flows of the asset, an impairment charge is recognized equal to the amount by which the carrying amount exceeds the expected undiscounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs of disposal and are no longer depreciated.

l) Foreign Currency Translation

The Company's subsidiaries that operate outside the United States use their local currency as the functional currency, with the exception of operations carried out in Canada and Mexico, in which case the functional currency is the U.S. dollar. Other than Canada and Mexico, the functional currency is translated into U.S. dollars for balance sheet accounts using the month end rates in effect as of the balance sheet date and average exchange rate for revenue and expense accounts for each respective period. The translation adjustments are deferred as a separate component of stockholders' equity, within other comprehensive income, net of tax where applicable. Gains or losses resulting from transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of earnings. The assets and liabilities of the Company's Canada and Mexico operations are re-measured using a month end rate, except for non-monetary assets and liabilities, which are re-measured using the historical exchange rate. Income and expense accounts are re-measured using an average monthly rate for the period, except for expenses related to those balance sheet accounts that are re-measured using historical exchange rates. The resulting re-measurement adjustment is reported in the consolidated statements of operations when incurred.

m) Earnings per Share ("EPS")

Basic net earnings per share ("EPS") is calculated using net earnings available to common stockholders divided by the weighted-average number of shares of common stock outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock options that were not included in the diluted EPS computation because the options' exercise price was greater than the average market price of the common shares for the periods presented were 351, 21 and 605 for 2005, 2004 and 2003, respectively.

Computations of basic and diluted earnings per share are presented in the following table:

	2005	2004	2003
Net earnings	$358,195	$368,622	$310,149
Weighted-average common and dilutive potential common shares outstanding:			
Weighted-average common shares outstanding	66,932	66,682	66,251
Add weighted-average dilutive potential common shares—options to purchase common shares, net	712	875	870
Weighted-average common and dilutive potential common shares outstanding	67,644	67,557	67,121
Basic earnings per share	$ 5.35	$ 5.53	$ 4.68
Diluted earnings per share	$ 5.30	$ 5.46	$ 4.62

n) Stock-Based Compensation

Effective January 1, 2003, the Company adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and requires prominent disclosure in both the annual and interim financial statements of the method of accounting used and the financial impact of stock-based compensation. As permitted by SFAS. 123, the Company accounts for stock options granted as prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which recognizes compensation cost based upon the intrinsic value of the award.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Transition may be accomplished using either the modified prospective or modified retrospective method. The Company currently measures compensation costs related to share-based payments under APB Opinion No. 25. In April 2005, the Securities and Exchange Commission announced that the effective date of SFAS 123R should be no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt SFAS 123R in the first quarter of 2006 after completing its evaluation.

If the Company had elected to recognize compensation expense under SFAS 123 based upon the fair value at the grant dates for awards under its plans, the Company's net earnings per share would have been reduced as follows:

	2005	2004	2003
Net earnings as reported	$358,195	$368,622	$310,149
Deduct: Stock-based employee compensation expense determined under fair value based method for all options, net of related tax effects	(8,628)	(7,519)	(6,284)
Pro forma net earnings	$349,567	$361,103	$303,865
Net earnings per common share (basic)			
As reported	$ 5.35	$ 5.53	$ 4.68
Pro forma	5.22	5.42	4.59
Net earnings per common share (diluted)			
As reported	5.30	5.46	4.62
Pro forma	5.18	5.36	4.54

The average fair value of options granted during 2005, 2004 and 2003 was $37.29, $34.39 and $24.73, respectively. This fair value was estimated using the Black-Scholes option pricing model based on a weighted-average market price at grant date of $87.19 in 2005, $74.62 in 2004 and $53.93 in 2003 and the following weighted-average assumptions:

	2005	2004	2003
Dividend yield	—	—	—
Risk-free interest rate	4.0%	2.9%	2.3%
Volatility	37.7%	43.1%	44.9%
Expected life (years)	6	6	6

o) Comprehensive Income

Comprehensive income includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions and derivative financial instruments designated as cash flow hedges. The Company does not provide income taxes on currency translation adjustments, as earnings from foreign subsidiaries are considered to be indefinitely reinvested.

Amounts recorded in Accumulated other comprehensive income on the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003 are as follows:

	Translation Adjustment	Hedge Instruments	Tax expense (benefit)	Total
2003	$ 47	$ 3,569	$(1,302)	$ 2,314
2004	(1,628)	(1,280)	467	(2,441)
2005	(48,702)	1,998	(729)	(47,433)

p) Effect of New Accounting Pronouncements

In December 2004, the FASB issued FASB Staff Position 109-1, "Application of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS No. 109") to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" ("FSP 109-1"). The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted October 22, 2004, provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides the treatment for the deduction as a special deduction as described in SFAS No. 109. FSP 109-1 is effective prospectively as of January 1, 2005. The adoption of FSP 109-1 did not have a significant impact on the Company's consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Jobs Act on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. The Company did not elect to repatriate any foreign earnings during 2005 and accordingly, the adoption of FSP 109-2 did not have a significant impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company will adopt SFAS 151 effective January 1, 2006 and does not expect its adoption will have a material impact on the Company's consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective December 31, 2005, the Company adopted FIN 47 which did not have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No, 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this standard, if any, will depend upon accounting changes or errors that may occur in future periods. The Company adopted SFAS 154 effective December 31, 2005.

q) Fiscal Year

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

r) Reclassifications

The Company reclassified certain prior period financial statement balances to conform to current presentations.

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SABRE HOLDINGS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

Basis of Presentation

We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised)* ("FIN 46R"), on November 7, 2005, pursuant to a $4 million loan, we recorded $72 million of assets, including $55 million of goodwill, and $71 million of liabilities based on fair value to our Consolidated Balance Sheet as we became the primary beneficiary of Zuji Holdings Limited ("Zuji"), and began to consolidate its results which were previously accounted for using the equity method. Zuji is a joint venture established in 2002 with 16 Asia Pacific airlines and operates in the Asia Pacific region. The Zuji site is hosted by Travelocity and utilizes Travelocity technology. On January 18, 2005, Travelocity entered into a put option agreement, exercisable from January 1, 2006 through January 31,2006. This put option was exercised on January 24, 2006 and Travelocity gained 100% control of Zuji. See Note 4 for additional information. Other than Zuji, no other entities are currently consolidated due to control through operating agreements, financing agreements, or as the primary beneficiary of a variable interest entity.

The Consolidated Financial Statements include our accounts after elimination of all significant intersegment balances and transactions. We account for our interests in joint ventures and investments in common stock of other companies that we do not control but over which we exert significant influence using the equity method, with our share of their results classified as revenues. Investments in the common stock of other companies over which we do not exert significant influence are accounted for at cost. We periodically evaluate equity and debt investments in entities accounted for at cost for impairment by reviewing updated financial information provided by the investee, including valuation information from new financing transactions by the investee and information relating to competitors of investees when available. If we determine that a cost method investment is other than temporarily impaired, the carrying value of the investment is reduced to its estimated fair value. To date, write-downs of investments carried at cost have been insignificant to our results of operations. See "Recent Accounting Pronouncements" below.

Certain reclassifications have been made to the 2004 and 2003 Consolidated Financial Statements to conform to the 2005 presentation.

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions. Our accounting policies which include significant estimates and assumptions include estimation of the collectibility of accounts receivable, amounts for future cancellations of bookings processed through the *Sabre* system, revenue recognition for software development, determination of the fair value of assets and liabilities acquired in a business combination, the evaluation of the recoverability of the carrying value of intangible assets and goodwill, assumptions utilized in the determination of pension and other post-employment benefit liabilities and the evaluation of uncertainties surrounding the calculation of our tax assets and liabilities. These policies are discussed in greater detail below.

Statement of Cash Flows

Marketable securities, without regard to remaining maturity at acquisition, are not considered cash equivalents for purposes of the Consolidated Statements of Cash Flows.

Depreciation and Amortization

Our depreciation and amortization policies are as follows:

Property and equipment:	
Buildings, including buildings under capital lease	Lesser of lease term or 35 years
Furniture and fixtures	5 to 15 years
Leasehold improvements	Lesser of lease term or useful life
Computer/service contract equipment	3 to 5 years
Computer/software	3 to 7 years
Other amortizable assets:	
Capitalized software development costs	3 to 7 years
Intangible assets	1 to 20 years

We are currently depreciating the capital lease assets for our corporate headquarters buildings, furniture and fixtures to the amount of the residual value guarantee over the ten-year term of the lease. We have the option at any time up to one year prior to lease expiration in 2013 to cause the properties to be sold. If such an event occurs, we will be responsible for any decrease in the fair market value of the properties below $179 million. Therefore, if we determine during the lease term that the estimated fair value of the capital lease assets has fallen below approximately $179 million, we will increase the periodic depreciation expense over the remaining term of the lease.

Property and equipment and other assets are stated at cost less accumulated depreciation and amortization, which is calculated on the straight-line basis. Depreciation of property, capital lease assels and equipment totaled approximately $76 million, $74 million and $70 million in 2005, 2004 and 2003, respectively. Amortization of other assets totaled approximately $55 million, $53 million and $66 million in 2005, 2004 and 2003, respectively. Other assets are amortized on the straight-line basis over the periods indicated. Accumulated amortization of other assets approximated $289 million and $234 million at December 31, 2005 and 2004, respectively.

Revenue Recognition

Sabre Travel Network

We provide various travel marketing and distribution services using the *Sabre* system. As compensation for services provided, fees are collected from airline, car rental and hotel vendors and other providers of travel-related products and services ("associates") for reservations booked through the *Sabre* system. The fee per booking charged to associates is dependent upon the level of functionality within the *Sabre* system at which the associate participates. Revenue for airline travel reservations is recognized at the time of the booking of the reservation, net of estimated future cancellations. At both December 31, 2005 and 2004, we have recorded transaction fee cancellation reserves of approximately $17 million. In 2005, the cancellation reserve remained the same due to a minimal change in the book rate and flat transaction levels for airline travel reservations. This reserve is calculated at each period end based on historical cancellation rates. In estimating the amount of future cancellations that will require us to refund a transaction fee, we assume that a significant percentage of cancellations are followed immediately with a new reservation, without loss of revenue. This assumption is based on historical rates of cancellations that results in new reservations and has a significant impact on the amount reserved. If circumstances change (i.e., higher than expected cancellation rates or changes in booking behavior), our estimates of future cancellations could be increased by a material amount and our revenue decreased by a corresponding amount. Revenue for car rental, hotel bookings and other travel providers is recognized at the time the reservation is used by the customer.

We also enter into service contracts with subscribers (primarily travel agencies) for hardware, software, hardware maintenance and other support services. Fees billed on service contracts are recognized as revenue in the month earned. We receive fees from travel suppliers and corporate customers for transactions booked through our web-based travel booking systems and recognize the associated revenues in the month of the transaction.

Travelocity

Our Travelocity segment receives commissions from travel suppliers for air travel, hotel rooms, car rentals, vacation packages and cruises booked through our Travelocity websites and advertising revenues from the delivery of advertising impressions on our Travelocity websites. Commissions from air travel providers are recognized at the time of booking the reservation, except for lastminute.com entities that recognize revenue related to air travel at the time of departure. The revenue recognition method used by lastminute.com will be changed to conform to the remainder of our Travelocity segment when adequate historical data on collections is developed. Commissions from car and hotel travel providers are recognized upon the scheduled date of travel consumption. We record car and hotel commission revenue net of an estimated reserve for no-shows. If circumstances should change such that the no-shows are significantly higher than expected, it could have a significant impact on the amount reserved. At December 31, 2005 and 2004, our reserve for car and hotel commissions was approximately $8 million and $6 million, respectively. Advertising revenues are recognized in the period that advertising impressions are delivered.

Travelocity has negotiated with travel suppliers for the right to access travel content at pre-determined net rates. Net rate travel offerings can include air travel, hotel stays, car rentals and dynamically packaged combinations of those components. We market those travel offerings to travelers at a price that includes an amount sufficient to pay the travel supplier its charge for providing the travel accommodations, along with any applicable occupancy and other local taxes we expect will be invoiced to us by the travel supplier on that charge, as well as additional amounts representing our service fees. Travelocity requires pre-payment by the traveler at the time of booking. Travelocity generally does not have purchase obligations for unused offerings. Travelocity recognizes net rate revenue for stand-alone air travel at the time the travel is booked, except for lastminute.com entities which recognize net rate revenues for stand-alone air travel at the date of departure; this policy will also be eventually conformed to the rest of the Travelocity segment. Vacation packages and hotel net rate revenue is recognized at the date of consumption.

For our *Travelocity* net rate and *TotalTrip* offerings, we record net rate revenues based on the total amount paid by the customer for products and services, minus our payment to the travel supplier. On the date a customer makes and prepays a reservation, we accrue a supplier liability based on the amount we expect to be billed by our suppliers. In some cases, a portion of Travelocity's prepaid net rate and travel package transactions goes unused by the traveler. In those circumstances, and some others, Travelocity may not be billed the full amount of the accrued supplier liability. Before the third quarter of 2004, we carried the entire unused portion of those prepaid transactions as an accrued supplier liability. In the third quarter of 2004, we implemented technology improvements that allow us to better estimate the potential liability to suppliers for those prepaid transactions and we adopted a process to reduce the accrued supplier liability for amounts aged more than six months. During 2004, that process resulted in an approximately $13 million decrease in the accrued supplier liability and an approximately $13 million increase to transaction revenue and operating income. Our process includes consideration of key factors, including, but not limited to, the age of the supplier liability, historical billing and payment information. We applied this process consistently throughout 2005 for our domestic Travelocity supplier liabilities.

Sabre Airline Solutions

We provide software solutions and airline reservation hosting services. Revenue from airline reservation hosting services is recognized in the period earned. Our software is sometimes sold as part of agreements which also require us to provide customization and implementation services. Such agreements are accounted for using contract accounting under the provisions of Statement of Position 97-2, *Software Revenue Recognition.* Revenue from license fees, when software is sold without associated customization or implementation services, is recognized when the software is delivered, fees are fixed and determinable, no undelivered elements are essential to the functionality of delivered software and collection is probable. Fees for software maintenance are recognized ratably over the life of the contract. The fees for software maintenance included in initial software license agreements is based on the vendor-specific objective evidence of the fair value of the services determined using actual renewal rates for software maintenance services. We also provide our software solutions in a hosted environment. Revenue is recognized in the period earned, generally through a monthly fee. Revenue from implementation services in a hosted environment is recognized ratably over the term of the agreement.

Services on long-term software development and consulting contracts are provided under both a time-and-materials basis and a fixed fee basis. Revenues with respect to time-and-materials contracts are recognized as services are performed. Revenues from services provided under fixed fee contracts are based on costs incurred to date in comparison to total cost projected at completion. A contract is considered substantially complete when the product has been delivered and performance specifications have been substantially met. Losses, if any, on long-term contracts are recognized when the current estimate of total contract costs indicates a loss on a contract is probable.

As a result of contractual billing terms, at December 31, 2005 and 2004 we had recorded accounts receivable of approximately $25 million and $28 million, respectively, that had not been billed to customers and deferred revenues of approximately $22 million and $20 million, respectively, related to advance payments from customers. Substantially all of these deferred revenues were classified as current liabilities as of December 31, 2005 and 2004, respectively.

Derivatives

We recognize all derivatives on the Consolidated Balance Sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a derivative designated as a hedge is immediately recognized in earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs expensed in 2005, 2004 and 2003 totaled approximately $204 million, $146 million and $138 million, respectively.

Subscriber Incentives

Certain service contracts with significant travel agency subscribers contain booking productivity clauses and other provisions that allow subscribers to receive cash payments and/or various amounts of additional equipment and other services from us at no cost. We establish liabilities for these commitments and recognize the related expense as the subscribers earn incentives based on the applicable contractual terms. Accrued incentives liabilities at December 31, 2005 and 2004 were approximately $82 million and $84 million, respectively. Periodically, we make cash payments to subscribers at inception or modification of a service contract which are deferred and amortized over the expected life of the service contract, which is generally three years. At December 31, 2005 and 2004, we had $45 million and $42 million, respectively, in deferred charges related to such contracts. The service contracts are priced so that the additional airline and other booking fees generated over the life of the contract will exceed the cost of the incentives provided.

Income Taxes

The provision for income taxes has been computed using the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the tax rates and laws in effect at the time of such determination. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize the extent to which, based on available evidence, the future tax benefits more likely than not will not be realized.

The calculation of our tax liabilities involves significant judgment and evaluation of uncertainties in the interpretation of complex tax laws. As a result, we have established reserves for taxes and associated interest that may become payable in future years as a result of audits by tax authorities. Tax reserves are reviewed regularly pursuant to Statement of Financial Accounting Standards No. 5, *Accounting* *for Contingencies*. Tax reserves are adjusted as events occur that affect our potential liability for additional taxes and associated interest, such as the expiration of statutes of limitation, conclusion of tax audits, identification of additional exposure based on current calculations, identification of new issues, or the issuance of statutory or administrative guidance or rendering of a court decision affecting a particular issue. The Company does not assume that it is permanently invested in foreign subsidiaries and accordingly provides for deferred taxes on the unremitted foreign earrnings. Accordingly, we may experience significant changes in our tax reserves in the future if or when such events occur.

Computer Software Developed or Purchased for Internal Use

Costs related to applications, infrastructure and graphics development for the *Sabre* system and our websites, are capitalizable under Statement of Position 98-1, *Accounting for Computer Software Developed or Obtained for Internal Use* ("SOP 98-1") and are included in property and equipment in the accompanying balance sheets. Capitalizable costs consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software and (b) payroll and payroll-related costs for employees who are directly associated with and who devote time to the project. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities and training, maintenance and general and administrative or overhead costs are expensed as incurred. Costs that cannot be separated between maintenance of, and relatively minor upgrades and enhancements to, internal-use software are also expensed as incurred.

We amortize computer software using the straight-line method over the estimated useful life of the software, approximately three to seven years. At December 31, 2005 and 2004, unamortized computer software costs for internal use approximated $154 million and $124 million, respectively. In 2005 our Travelocity segment wrote off $2 million to amortization expense from the impairment of software which became obsolete due to an upgrade to a new platform. Amortization expense for computer software developed or purchased for internal use was $40 million, $26 million and $19 million in 2005, 2004 and 2003, respectively.

Capitalized Software Development Costs

All costs incurred in the development of software which is licensed to third parties that have the option to take possession of the software are classified as research and development costs and are expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, such costs are capitalized until the product is ready for service. We define technological feasibility in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* ("SFAS 86"). Technological feasibility is achieved upon completion of all planning, designing, coding and testing activities that are necessary to establish that a product can be produced according to its design specifications.

We amortize capitalized software development costs using the straight-line method over the estimated economic life of the software. At both December 31, 2005 and 2004, unamortized software development costs approximated $17 million which represents products developed for licensing from our Sabre Airline Solutions segment. Amortization expense for capitalized software development costs was $7 million in 2005 and $5 million in both 2004 and 2003.

Research and Development

Research and development costs incurred for both SOP 98-1 and SFAS 86 software development approximated $26 million, $32 million and $48 million for 2005, 2004 and 2003, respectively.

Goodwill and Long-Lived Assets

Pursuant to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), we evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis or if impairment indicators exist. For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, as generally estimated using a discounted future net cash flow projection, the carrying value of the asset is reduced to its fair value. For goodwill, the evaluation requires a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities of that unit. If the sum of the carrying value of the assets and liabilities of a reporting unit exceeds the fair value of that reporting unit, the carrying value of the reporting unit's goodwill is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge. We evaluate five reporting units under SFAS 142, which include Sabre Travel Network, Travelocity, Sabre Airline Solutions, SynXis and Emerging Businesses. Our SynXis and Emerging Businesses reporting units are included within Sabre Travel Network for segment reporting purposes.

The fair values used in our SFAS 142 evaluation are estimated based upon discounted future cash flow projections. These cash flow projections are based upon a number of assumptions, including risk-adjusted discount rates, future booking and transaction volume levels, future price levels, rates of growth in our consumer and corporate direct booking businesses and rates of increase in operating expenses. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

Intangible assets subject to amortization are evaluated for impairment pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), which requires impairment testing whenever events or changes in circumstances indicate that the carrying amount of an amortizable intangible asset may not be recoverable. If impairment indicators exist for an amortizable intangible asset, the undiscounted future cash flows associated with the expected service potential of the asset are compared to the carrying value of the asset. If our projection of undiscounted future cash flows is in excess of the carrying value of the intangible asset, no impairment charge is recorded. If our projection of undiscounted cash flows is less than the carrying value of the intangible asset, an impairment charge is recorded to reduce the intangible asset to its fair value.

Amortization expense relating to intangible assets subject to amortization totaled $48 million, $47 million and $56 million during the years ended December 31, 2005, 2004 and 2003, respectively. Included in these amounts are an impairment charge of $3 million recorded in 2004 for technology-related assets within our Sabre Travel Network segment and $9 million recorded in 2003 related to the termination of a supplier agreement within our Travelocity segment. No other significant impairments of our goodwill or intangible assets have been recorded.

At December 31, 2005 and 2004, our intangible assets were comprised of the following (in thousands):

		2005		2004	
	Weighted-Average Useful Lives	Gross Carrying Amount, at Cost	Accumulated Amortization	Gross Carrying Amount, at Cost	Accumulated Amortization
Not subject to amortization:					
Goodwill		$1,743,746	$ —	$ 899,404	$ —
Tradenames, trademarks and domain names		308,621	—	30,608	—
		2,052,367	—	930,012	—
Subject to amortization:					
Purchased technology	4 years	245,855	(153,922)	149,826	(134,874)
Acquired customer relationships and database	7 years	157,444	(43,053)	57,145	(27,270)
Non-compete agreements	7 years	25,736	(22,005)	24,009	(19,581)
Trademarks and brandnames	14 years	43,480	(1,839)	300	(33)
Acquired contracts, supplier and distributor agreements	4 years	59,784	(30,707)	30,667	(21,601)
		532,299	(251,526)	261,947	(203,359)
Total		$2,584,666	$(251,526)	$1,191,959	$(203,359)

Estimated amortization expense relating to intangible assets subject to amortization for each of the five succeeding years and beyond is as follows (in thousands):

2006	$ 67,466
2007	63,542
2008	54,846
2009	24,031
2010–2025	70,888
Total	$280,773

Changes in the carrying amount of goodwill during the twelve months ended December 31, 2004 and 2005 are as follows (in thousands):

	Sabre Travel Network	Travelocity	Sabre Airline Solutions	Total
Balance at December 31, 2003	$221,083	$ 517,310	$40,241	$ 778,634
Goodwill acquired	31,247	71,587	10,814	113,648
Goodwill adjustments	1,414	450	—	1,864
Foreign exchange revaluation	3,563	—	1,695	5,258
Balance at December 31, 2004	257,307	589,347	52,750	899,404
Goodwill acquired	30,828	853,899	—	884,727
Goodwill adjustments	(14,497)	2,867	225	(11,405)
Foreign exchange revaluation	(5,538)	(21,250)	(2,192)	(28,980)
Balance at December 31, 2005	$268,100	$1,424,863	$50,783	$1,743,746

In addition to the goodwill amounts above, $94 million is included in investments in joint ventures on the Consolidated Balance Sheets and represents our excess basis over the underlying equity in joint ventures.

Concentration of Credit Risk

Our customers are primarily located in the United States, Canada, Europe, Latin America and Asia, and are concentrated in the travel industry. We generate a significant portion of our revenues and corresponding accounts receivable from services provided to the commercial air travel industry. As of December 31, 2005, approximately 70% of our trade accounts receivable was attributable to these customers. Our other accounts receivable are generally due from other participants in the travel and transportation industry. We generally do not require security or collateral from our customers as a condition of sale.

We regularly monitor the financial condition of the air transportation industry and have noted the financial difficulties faced by several air carriers. We believe the credit risk related to the air carriers' difficulties is mitigated somewhat by the fact that we collect a significant portion of the receivables from these carriers through the Airline Clearing House ("ACH"). We believe use of ACH mitigates our credit risk in cases of airline bankruptcies.

We maintained an allowance for losses of approximately $25 million and $24 million at December 31, 2005 and 2004, respectively, based upon the amount of accounts receivable expected to prove uncollectible. During 2005, approximately $6 million in specific customer net write-offs were recorded against allowance for losses. We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, failure to pay amounts due to us or others), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off history, (average percentage of receivables written off historically) and the length of time the receivables are past due.

If demand for commercial air travel softens, due to prevailing economic conditions, terrorist acts or other incidents involving commercial air transport, or other factors, the financial condition of our customers may be adversely impacted. If we begin, or estimate that we will begin, to experience higher than expected defaults on amounts due us, our estimates of the amounts which we will ultimately collect could be reduced by a material amount. We believe that we have appropriately considered the effects of these factors in our financial statements, as well as any other known customer liquidity issues, on the ability of our customers to pay the amounts owed to us.

Travel Supplier Liabilities and Related Deferred Revenue

To facilitate the provision of travel accommodations to travelers, we enter into agreements with travel suppliers for the right to market their products, services and other content offerings. Under some agreements with travel suppliers in Europe, including air travel, we collect the full price of the travel from the consumer and remit the payment to the travel supplier, after withholding our service fee. The amount due to the travel supplier and our fee is recorded in travel supplier liabilities and related deferred revenue on the Consolidated Balance Sheets until these amounts are paid to the supplier or recognized as revenue upon consumption of the travel.

Under other agreements with travel suppliers, content is available to us at pre-determined net rates. Net rate travel offerings can include air travel, hotel stays, car rentals and dynamically packaged combinations of those components. We market those offerings to travelers at a price that includes an amount sufficient to pay the travel supplier for its charge for providing the travel accommodations, along with any applicable taxes we expect will be invoiced to us by the travel supplier on that charge, as well as additional amounts representing our service fees. For this type of business model, we require pre-payment by the traveler at the time of booking. Travel supplier liabilities also reflects amounts payable to travel suppliers under these net rate travel offerings and related deferred revenue, which reflects the amounts representing our service fees that are recognized as revenue when the travel has been consumed.

Earnings Per Share

Basic earnings per share excludes any dilutive effect of options, warrants and other stock-based awards. The number of shares used in the diluted earnings per share calculations includes the dilutive effect of stock options and restricted shares.

The following table reconciles weighted-average shares used in computing basic and diluted earnings per common share (in thousands):

	2005	2004	2003
Denominator for basic earnings per common share—weighted-average shares	129,587	136,326	142,321
Dilutive effect of stock awards and options	749	1,605	1,086
Denominator for diluted earnings per common share—adjusted weighted-average shares	130,336	137,931	143,407

Options to purchase approximately 19,780,413, 16,110,965 and 16,003,814 weighted-average shares of Common Stock were outstanding during 2005, 2004 and 2003, respectively, but were excluded from the computation of diluted earnings per share because the effect would be antidilutive. The number of antidilutive options for 2005, 2004 and 2003 includes approximately 3,400,000 options that were granted to a third party in 1998 and expire in 2013. The increase in antidilutive options in 2005 compared to prior periods was due to a generally lower stock price for the year.

Stock Awards and Options

At December 31, 2005, we have seven stock-based compensation plans, which are described more fully in Note 12. We currently account for stock awards and options using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. Generally, no compensation expense is recognized for stock option grants if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to us necessary to earn the award. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). We discuss the changes that will occur to our accounting for stock awards and options as a result of adopting SFAS 123R under the "Recent Accounting Pronouncements" caption below.

In accordance with Financial Accounting Standard Board's Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* ("FIN 44"), an interpretation of APB 25, we record deferred compensation for unvested employee stock options assumed in connection with our acquisitions (Note 4). At December 31, 2005, unamortized deferred stock compensation relating to acquisitions is immaterial. At December 31, 2004, unamortized deferred stock compensation related to acquisitions totaled approximately $1 million and is recorded as a reduction of additional paid-in capital.

The total charge for stock compensation expense recorded in accordance with APB 25 and included in wages, salaries and benefits expense was $12 million, $11 million and $12 million for 2005, 2004 and 2003, respectively. The stock compensation expense resulted from unvested stock options assumed in connection with acquisitions and our grants of restricted stock.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, instead of APB 25's intrinsic value method to account for stock-based employee compensation (in thousands, except for per share amounts):

	2005	2004	2003
Net earnings as reported	$172,152	$190,419	$83,301
Add stock compensation expense determined under intrinsic value method, net of income taxes	7,361	6,995	7,531
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	(30,937)	(31,094)	(48,063)
Pro forma net earnings	$148,576	$166,320	$ 42,769
Net earnings per common share, as reported:			
Basic	$ 1.33	$ 1.40	$ 0.59
Diluted	$ 1.32	$ 1.38	$ 0.58
Net earnings per common share, pro forma:			
Basic	$ 1.15	$ 1.22	$ 0.30
Diluted	$ 1.14	$ 1.21	$ 0.30

The above pro forma information regarding net income and earnings per share has been determined as if we had accounted for employee stock options and stock-based awards under the fair value method set forth in SFAS 123. The fair value for the stock options granted by us to employees was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005	2004	2003
Average risk-free interest rate	4.0%	3.3%	2.8%
Expected life (in years)	4.5	4.5	4.5
Dividend yield	1.7%	1.3%	0.1%
Volatility	49.3%	51.6%	53.6%
Fair value	$8.27	$9.81	$8.60

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. During 2005, 2004 and 2003 amounts included in comprehensive income other than net income were approximately a $68 million loss, a $1 million loss and an $8 million gain respectively, primarily consisting of a minimum pension liability adjustment (Note 9) and unrealized gains on investments, foreign currency forward contracts and foreign currency translations.

At December 31, 2005, the components of accumulated other comprehensive income/(loss) were as follows (in thousands):

	Minimum Pension Liability Adjustment	Unrealized Gains/(Losses) on Foreign Currency Forward Contracts	Unrealized Gains/(Losses) on Investments	Unrealized Foreign Currency Translation Gains/(Losses)	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2002	$(21,638)	$ 4,976	$ 616	$ 22	$(16,024)
2003 other comprehensive income (loss), net of deferred taxes	(1,223)	1,437	710	6,985	7,909
Balance at December 31, 2003	(22,861)	6,413	1,326	7,007	(8,115)
2004 other comprehensive income (loss), net of deferred taxes	(8,330)	519	(1,422)	7,922	(1,311)
Balance at December 31, 2004	(31,191)	6,932	(96)	14,929	(9,426)
2005 other comprehensive income (loss), net of deferred taxes	(24,433)	(11,101)	634	(33,546)	(68,446)
Balance at December 31, 2005	$(55,624)	$ (4,169)	$ 538	$(18,617)	$(77,872)

The 2005, 2004 and 2003 minimum pension liability adjustments are net of deferred tax effects of approximately $15 million, $5 million and $1 million, respectively. Unrealized gains and losses on foreign currency forward contracts for 2005 are net of deferred tax effects of approximately $7 million. Unrealized foreign currency translation loss is net of approximately $10 million in deferred taxes at December 31, 2005. The tax effects allocated to all other components of other comprehensive income during the years ended December 31, 2005, 2004 and 2003 were not significant. Unrealized gains from foreign currency forward contracts that were reclassified from other comprehensive income to net income during the years ended December 31, 2005, 2004 and 2003 were $5 million, $11 million and $12 million, respectively. Reclassification from other comprehensive income to net income for all other components of other comprehensive income for the years ended December 31, 2005, 2004 and 2003 were not significant.

Financial Instruments

The carrying value of our financial instruments including cash, marketable securities, accounts receivable and short and long-term debt instruments approximate their fair values at December 31, 2005 and 2004. Our derivative instruments are carried at their estimated fair values at December 31, 2005 and 2004.

Treasury Stock

We account for the purchase of treasury stock at cost. Upon reissuance of shares of treasury stock, we record any difference between the weighted-average cost of such shares and any proceeds received as an adjustment to additional paid-in capital.

Restricted Cash

At December 31, 2005, we hold $57 million in cash that is restricted. Restricted cash of $40 million primarily represents cash that is required to be held to fulfill bonding requirements in Europe which are in place to protect European travel consumers in the event a travel supplier is unable to provide the travel products purchased, or we default on our obligation to pay the travel supplier. The amounts of the required deposits are established annually based on forecasted transaction value sold and are influenced by the credit stability and ratings of the company acting as collection agent or merchant for the transaction (us in this instance) and do not represent the entire cost of the travel product purchased. Therefore, we are contingently liable for additional amounts beyond those on deposit as restricted cash with bonding agencies. We hold $11 million in an escrow account to fulfill the requirements of a bank guarantee we provided to the government of India relating to our ongoing Indian tax dispute. In the first quarter of 2006 this amount became unrestricted. We also have $6 million of restricted cash from our consolidation of Zuji which represents bank guarantees required by airlines and other travel regulatory bodies as well as an office premise.

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS 123R, which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized on the income statement based on their fair values.

We are adopting SFAS 123R on January 1, 2006 using the modified prospective method and, as a result, we will begin expensing options in 2006 with no restatement of prior periods. All options granted prior to adoption will continue to be expensed using the fair value previously determined using the Black-Scholes option-pricing model and included in our pro forma disclosures; however, options granted subsequent to our adoption of SFAS 123R will be valued using a lattice model, which we believe provides us with a more reliable fair value. Stock option expenses will be recorded on a straight-line basis over the requisite service period. SFAS 123R also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow, as required under the current guidance. We cannot estimate what the impact of this will be on our financing cash flows, as it will depend on the future exercise behavior of option holders. We expect the adoption of SFAS 123R will reduce pre-tax income by approximately $18 million, or $.09 per share, in 2006 although this amount may change based on the level of future grants of options, unforeseeable changes in our assumptions used in the lattice model, such as our stock volatility, and actual forfeiture rates not matching our current estimates.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections,* a replacement of APB Opinion No. 20, *Accounting Changes,* and Statement of Financial Accounting Standards No. 3, *Reporting Accounting Changes in Interim Financial Statements.* The standard requires changing the accounting and reporting requirements of voluntary and mandatory (unless the pronouncement provides other transition requirements) changes in accounting principle by requiring retroactive application of the change in accounting principle to prior periods' financials statements, unless it is not practical to do so, rather than recording a cumulative catch-up adjustment in net income in the year of the change. Reporting error corrections will be handled similarly to a change in accounting principles. The standard is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. This new accounting standard is not anticipated to have a material impact on our financial results.

ACCOUNTING CHANGES

1.50 APB Opinion No. 20, *Accounting Changes*, defined various types of accounting changes, including a change in accounting principle, and provided guidance on the manner of reporting each type. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, replaces *APB No. 20. SFAS No. 154* changes the requirements for the accounting for and reporting of a change in accounting principle.

1.51 *APB No. 20* required that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. *SFAS No. 154* requires, unless impracticable or otherwise specified by an applicable authoritative pronouncement, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective application is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, retrospective application involves the following:

- Financial statements for each individual prior period presented shall be adjusted to reflect the period-specific effects of applying the new accounting principle.
- The cumulative effect of the change on periods prior to those presented shall be reflected in the carrying amount of assets and liabilities as of the beginning of the first period presented.
- An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate component of equity) for that period.

1.52 *SFAS No. 154* also requires that a change in depreciation, amortization, or depletion method be accounted for prospectively as a change in accounting estimate effected by a change in accounting principle. A change in accounting estimate is accounted for either in the period of change if the change affects that period only, or the period of change and future periods if the change affects both.

1.53 Table 1-8 lists the accounting principle changes disclosed by the survey companies. As indicated in Table 1-8, most of the accounting principle changes disclosed by the survey companies were changes made to conform to requirements stated in newly adopted authoritative pronouncements.

1.54 Examples of accounting principle change disclosures follow.

1.55

TABLE 1-8: ACCOUNTING PRINCIPLE CHANGES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Asset retirement obligation	93	9	125	7
American Jobs Creation Act tax effect	62	N/C*	N/C*	N/C*
Stock compensation	36	16	122	16
Exchange of nonmonetary assets	24	N/C*	N/C*	N/C*
Postretirement prescription drug benefit	12	92	N/C*	N/C*
Inventories	7	4	3	5
Consolidation of variable interest entities	5	176	N/C*	N/C*
Accounting changes and corrections	5	N/C*	N/C*	N/C*
Impairment or disposal of long-lived assets	3	4	68	156
Goodwill and other intangibles	2	1	57	465
Financial instruments with liability and equity characteristics	1	24	188	N/C*
Other	20	83	44	89

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

Asset Retirement Obligation

1.56

ALCOA INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Asset Retirement Obligations

Alcoa recognizes asset retirement obligations (AROs) related to legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa would also recognize an ARO for any significant lease restoration obligation if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, Alcoa capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over the remaining useful life.

Recently Adopted Accounting Standards

Alcoa adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), effective December 31, 2005. See Note C for additional information.

C. Asset Retirement Obligations

Alcoa adopted FIN 47, effective December 31, 2005. FIN 47 clarifies the accounting for conditional asset retirement obligations (CAROs), as referenced in SFAS No. 143, "Accounting for Asset Retirement Obligations." A CARO is a legal obligation to perform an asset retirement activity in which the obligation is unconditional, but uncertainty exists about the timing and/or method of settlement, which may or may not be under the control of Alcoa, and which prevents the reasonable estimation of the fair value of the CARO. Upon adoption, Alcoa recognized a cumulative effect adjustment of $2, consisting primarily of costs for regulated waste materials related to the demolition of certain power facilities. Pro forma amounts related to prior periods are not presented, as there is no impact on prior period financial statements.

Historically, Alcoa has either operated locations or sold them and, in certain circumstances, has curtailed them for possible future use while continuing with ongoing security, utility and other maintenance costs as deemed necessary. In the event of a decision to permanently shutdown and/or demolish a facility, Alcoa would record an ARO for the removal, treatment, transportation, storage and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and above-ground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste, and various other materials.

AROs have not been recorded in the financial statements for any Alcoa operating location—other than those with specific legal obligations for spent pot lining disposal, closure of bauxite residue areas, mine reclamation, landfill closure, and specific lease restoration requirements—because the fair value of such potential retirement obligations cannot be measured as the settlement dates for these operating locations cannot be estimated. Such amounts may be material to the financial statements in the period in which they are recorded.

Effective January 1, 2003, Alcoa adopted SFAS No. 143. The cumulative effect adjustment recognized upon adoption of this standard was $47, consisting primarily of costs to establish assets and liabilities related to spent pot lining disposal for pots currently in operation.

The following table details the changes in the carrying amount of AROs.

	2005	2004
Balance at beginning of year	$233	$217
Accretion expense	14	15
Payments	(31)	(25)
Liabilities incurred	46	30
Translation and other	(4)	(4)
Balance at end of year	$258	$233

1.57

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

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

Asset Retirement Obligations

On December 31, 2005, we adopted FASB interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143* (FIN 47). FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143 and requires a liability to be recorded if the fair value of the obligation can be reasonably estimated. Asset retirement obligations covered by this Interpretation include those for which an entity has a legal obligation to perform an asset retirement activity, however the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

In accordance with FIN 47, we record all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations.

As a result of adopting FIN 47, we recorded a cumulative effect of accounting change of $10 ($6 net of tax) during the fourth quarter of 2005. In addition, we recorded a liability of $11 representing asset retirement obligations and an increase in the carrying value of the related assets of $1, net of $5 of accumulated depreciation. Had the adoption of FIN 47 occurred at the beginning of the earliest period presented, our results of operations and earnings per share would not have been significantly different from the amounts reported. Accordingly, pro forma financial information has not been provided.

We also have known conditional asset retirement obligations, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, these obligations have not been recorded in the consolidated financial statements. A liability for these obligations will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value. In addition, there may be conditional asset retirement obligations that we have not yet discovered (e.g. asbestos may exist in certain buildings but we have not become aware of it through the normal course of business), and therefore, these obligations also have not been included in the consolidated financial statements.

American Jobs Creation Act Tax Effect

1.58

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Changes (In Part)

Other Accounting Changes (In Part)

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which provides a practical exception to the SFAS No. 109 requirement to reflect the effect of a new tax law in the period of enactment by allowing additional time beyond the financial reporting period to evaluate the effects on plans for reinvestment or repatriation of unremitted foreign earnings. The American Jobs Creation Act of 2004 (the "AJCA") introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. In May 2005, tax authorities released the clarifying language necessary to enable the Company to finalize its plan for the repatriation and reinvestment of foreign earnings subject to the requirements of the AJCA, resulting in a credit of $113 million to "Provision for income taxes" in the second quarter of 2005.

Note T (In Part): Income Taxes

The American Jobs Creation Act of 2004 (the "AJCA"), which was signed into law in October 2004, introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. In May 2005, tax authorities released the clarifying language necessary to enable the Company to finalize its plan for the repatriation and reinvestment of foreign earnings subject to the requirements of the AJCA, resulting in a credit of $113 million to the "Provision for income taxes" in the second quarter of 2005.

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RECONCILIATION TO U.S. STATUTORY RATE

(In millions)	2005	2004	2003
Taxes at U.S. statutory rate	$2,240	$1,329	$613
Equity earnings effect	(287)	(168)	(56)
Foreign rates other than 35%(1)	(409)	(524)	(382)
U.S. tax effect of foreign earnings and dividends(2)	160	210	(187)
U.S. business and R&D credits	(48)	(47)	(77)
Benefit of repatriation under AJCA	(113)	—	—
Unfavorable tax ruling	137	—	—
Other — net	102	77	7
Total tax provision (credit)	$1,782	$ 877	$ (82)
Effective tax rate	27.8%	23.1%	(4.7)%

(1) Includes the effect of changes in valuation allowances for foreign entities as follows: an increase of $14 million in 2005 and decreases of $116 million in 2004 and $268 million in 2003.

(2) Includes the effect of changes in the valuation allowance for U.S. foreign tax credits of $114 million in 2003.

1.59

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Recent Accounting Pronouncements

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP No. FAS 109-2 provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act in income tax expense and deferred tax liability. The Act provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated from our controlled foreign corporations. To qualify for the deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by our senior management and approved by the Board of Directors. During the third quarter of fiscal year 2005, our Chief Executive Officer and Board of Directors approved a domestic reinvestment plan as required by the Act. During the fourth quarter of fiscal year 2005, we repatriated approximately $150.0 million in extraordinary dividends, as defined in the Act, and accordingly have recorded a tax liability of $9.3 million as of December 31, 2005.

Note 5 (In Part): Income Taxes

During the fourth quarter of fiscal year 2005, we repatriated approximately $150.0 million in extraordinary dividends, as defined in the American Jobs Creation Act, and accordingly have recorded a tax liability of $9.3 million as of December 31, 2005.

Stock Compensation

1.60

THE HERSHEY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Items Affecting Comparability (In Part)

Certain reclassifications have been made to prior year amounts to conform to the 2005 presentation. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share—Based Payment* ("SFAS No. 123R"). SFAS No. 123R addresses the accounting for transactions in which an enterprise exchanges its valuable equity instruments for employee services. It also addresses transactions in which an enterprise incurs liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of those equity instruments in exchange for employee services. For public entities, the cost of employee services received in exchange for equity instruments, including employee stock options, would be measured based on the grant-date fair value of those instruments. That cost would be recognized as compensation expense over the requisite service period (often the vesting period). Generally, no compensation cost would be recognized for equity instruments that do not vest. The Company adopted SFAS No. 123R in the fourth quarter of 2005 and applied the modified retrospective application method to all prior years for which Statement of Financial Accounting Standards No. 123 was effective. Accordingly, consolidated financial statements for all prior periods were adjusted to give effect to the fair-value-based method of accounting for awards granted, modified or settled in cash subsequent to December 31, 1994. The impact of SFAS No. 123R decreased net income by $21.7 million, $13.0 million and $15.6 million, or $.09, $.05 and $.06 per share—diluted, in 2005, 2004 and 2003, respectively. The impact in 2005 included $2.4 million after tax, or $.01 per share-diluted, in business realignment charges.

Adjustments requiring increases (decreases) to assets, liabilities and stockholders' equity resulting from the adoption of SFAS No. 123R were as follows:

(In thousands of dollars)	2004	2003	2002
Current deferred income taxes	$ 15,253	$ 4,611	$ 6,405
Total assets	$ 15,253	$ 4,611	$ 6,405
Accrued liabilities	$ (2,911)	$ (2,654)	$ (1,634)
Other long-term liabilities	(19,977)	(10,917)	(10,228)
Deferred income taxes	(9,659)	(27,662)	(20,473)
Total liabilities	(32,547)	(41,233)	(32,335)
Additional paid-in capital	142,799	$127,865	105,124
Retained earnings	(94,999)	(82,021)	(66,384)
Total stockholders' equity	47,800	45,844	38,740
Total liabilities and stockholders' equity	$ 15,253	$ 4,611	$ 6,405

1.61

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Stock-Based Compensation

Effective January 1, 2005, the company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment" (SFAS 123(R)). The company previously applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issue to Employees," and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). The company elected to adopt the modified retrospective application method provided by SFAS 123(R) and accordingly, financial statement amounts for the periods presented herein reflect results as if the fair value method of expensing had been applied from the original effective date of SFAS 123. Such results are consistent with the previously reported pro forma disclosures required under SFAS No. 123. See the company's restated financial statements filed on June 22, 2005 with the Securities and Exchange Commission (SEC) for the effect of this change on prior periods.

Stock-based compensation represents the cost related to stock-based awards granted to employees. The company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The company estimates the fair value of stock options using a Black-Scholes valuation model. The expense is recorded in Cost, SG&A, and RD&E in the Consolidated Statement of Earnings based on the employees' respective functions.

The company records deferred tax assets for awards that result in deductions on the company's income tax returns, based on the amount of compensation cost recognized and the company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the company's income tax return are recorded in Additional Paid-In Capital (if the tax deduction exceeds the deferred tax asset) or in the Consolidated Statement of Earnings (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

B (In Part): Accounting Changes

Standards Implemented (In Part)

As discussed in note A, "Significant Accounting Policies" on pages 58 and 59, effective January 1, 2005, the company adopted the provisions of SFAS 123(R). The company elected to adopt the modified retrospective application method provided by SFAS 123(R) and accordingly, financial statement amounts for the periods presented herein reflect results as if the fair value method of expensing had been applied from the original effective date of SFAS 123.

U (In Part): Stock-Based Compensation

As discussed in note A, "Significant Accounting Policies" on pages 58 and 59, effective January 1, 2005, the company adopted the fair value recognition provisions for stock-based awards granted to employees using the modified retrospective application method provided by SFAS 123(R). Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period.

The following table shows total stock-based compensation expense included in the Consolidated Statement of Earnings:

(Dollars in millions)	2005	2004	2003
Cost	$ 330	$ 463	$ 471
Selling, general and administrative*	606	914	865
Research, development and engineering	107	201	237
Other (income) and expense**	(8)	—	—
Pre-tax stock-based compensation expense	1,035	1,578	1,573
Income tax benefits	(349)	(498)	(472)
Total stock-based compensation expense	$ 686	$1,080	$1,101

* Includes $7 million of credits recorded during the year ended December 31, 2005, as a result of awards forfeited in connection with the company's second-quarter 2005 workforce resource actions.

** Reflects the one-time effects on stock-based compensation expense as a result of the divestiture of the Personal Computing business.

Total unrecognized compensation costs related to non-vested awards at December 31, 2005 is $1,512 million and is expected to be recognized over a weighted-average period of approximately 3 years.

There were no significant capitalized stock-based compensation costs at December 31, 2005, 2004 and 2003.

Incentive Awards (In Part)

The company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS 123(R) and SEC Staff Accounting Bulletin No. 107 (SAB 107). Key inputs and assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the company's stock, the risk-free rate and the company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the company.

The fair value of each stock option grant was estimated at the date of grant using a Black-Scholes option pricing model. The following table presents the weighted-average assumptions used for options granted:

	2005	2004	2003
Option term (years)*	5	5	5
Volatility**	34.7%	37.8%	39.9%
Risk-free interest rate (zero coupon U.S. treasury note)	4.0%	3.5%	2.9%
Dividend yield	0.9%	0.8%	0.7%
Weighted-average fair value per option granted	$ 29	$ 34	$ 30

* The Option term is the number of years that the company estimates, based upon history, that options will be outstanding prior to exercise or forfeiture.

** The company's estimates of expected volatility are principally based on daily price changes of the company stock over the expected option term, as well as the additional requirements included in the provisions of SFAS 123(R) and the guidance provided by SAB 107.

Exchange of Nonmonetary Assets

1.62

KERR-MCGEE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Property, Plant and Equipment (In Part)

Asset Exchanges

Effective July 1, 2005, the company adopted Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29" (FAS No. 153), for exchanges of nonmonetary assets occurring after the implementation date. Prior to implementing FAS No. 153, the company generally did not recognize gains on nonmonetary exchanges involving proved oil and gas properties; however, for exchange transactions involving monetary consideration (if such consideration was less than 25% of the fair value of assets exchanged), a proportionate amount of the indicated gain was recognized based on the percentage of monetary consideration received. Exchanges of proved oil and gas properties involving receipt of monetary consideration of 25% or more were accounted for at fair value with full gain recognition. According to the provisions of FAS No. 153, all nonmonetary asset exchanges that have commercial substance, as defined, will be measured at fair value with gain or loss recognized in earnings.

2 (In Part): Discontinued Operations and Asset Divestitures and Exchanges

Overview

As discussed in Note 1, the company made a number of strategic decisions in 2005 with the goal of repositioning Kerr-McGee as a pure-play exploration and production company and enhancing value for its stockholders. The company's strategic plan includes divestitures of certain lower-growth or shorter-life and higher-decline oil and gas assets, including the company's North Sea oil and gas business and selected oil and gas properties in the U.S., and the separation of the chemical business. At the same time, the company is accelerating its U.S. onshore development activities, with a focus on the Wattenberg and Greater Natural Buttes areas. Management believes this strategy will result in a property base weighted toward longer-life, less capital-intensive properties that will provide greater stability of production and production replacement, while the company's exploration program in the deepwater Gulf of Mexico and other areas will continue to provide growth opportunities.

The following summarizes divestiture transactions completed or which the company expects to complete in 2006.

		Pretax Gain on Sale, Net	
(Millions of dollars)	Gross Proceeds[1]	Continuing Operations	Discontinued Operations
Completed exchange transactions—			
Exchange of interests in certain noncore oil and gas properties for a 37.5% interest in the Blind Faith discovery in the deepwater Gulf of Mexico and cash	$ 26	$ 21	$ —
Exchange of interests in certain noncore oil and gas properties for overriding royalty interests in the Greater Natural Buttes area and cash	27	24	—
Completed divestiture transactions—			
Nonoperated North Sea fields	551	—	306
Remaining oil and gas operations in the North Sea	2,970	—	1,934
Nonoperating interest in gas processing facility	159	120[2]	—
Several packages of U.S. onshore oil and gas properties	435	149	—
Other noncore oil and gas properties and other assets	56	17	(1)
Total completed exchange and divestiture transactions	$4,224	$331	$2,239
Expected 2006 divestiture transactions—			
Interests in oil and gas properties on the Gulf of Mexico shelf	1,340[3]		
Noncore oil and gas assets onshore in the U.S.	15		

(1) For completed transactions, gross proceeds reflect working capital and other adjustments to the base cash purchase price. The following presents a reconciliation of the gross proceeds presented above to the net proceeds from asset divestitures presented in the company's Consolidated Statement of Cash Flows for the year ended December 31, 2005 (in millions of dollars):

Gross proceeds as reflected above	$4,224
Cash on hand acquired by the purchasers at closing	(171)
Transaction costs and expenses paid	(49)
Proceeds (receivable)/payable, net	5
Proceeds per the Consolidated Statement of Cash Flows	$4,009

(2) Gain on sale of the company's investment in the Javelina gas processing facility is reflected as a component of other income (expense) in the company's Consolidated Statement of Income. The company owned an interest in the facility through its 40% ownership of Javelina Company and Javelina Pipeline Company. This investment was accounted for using the equity method of accounting.

(3) Represents expected cash proceeds as of October 1, 2005 effective date before considering working capital and other adjustments.

1.63

PEABODY ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Pronouncements (In Part)

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, "Exchanges of Nonmonetary Assets—an Amendment of APB Opinion 29," which became effective for fiscal periods beginning after June 15, 2005. Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged with certain exceptions to that general principle. SFAS No. 153 eliminates the exception to fair value measurement for exchanges of similar productive assets that previously existed under APB Opinion No. 29 and replaces it with a general exception for exchanges that lack commercial substance. The Company early adopted SFAS No. 153 on July 1, 2005, and applied these provisions to subsequent coal reserve exchanges (see Note 3).

3) Significant Property Transactions

In the first quarter of 2005, the Company purchased mining assets from Lexington Coal Company for $61.0 million. The purchased assets included $2.5 million of materials and supplies that were recorded in "Inventories" in the consolidated balance sheet. The remaining purchased assets consisted of approximately 70 million tons of reserves, preparation plants, facilities and mining equipment that were recorded in "Property, plant, equipment and mine development" in the consolidated balance sheet. The Company is using the acquired assets to open a new mine that is expected to produce 2 to 3 million tons per year, after it reaches full capacity, and to provide other synergies to existing properties. The new mine, which began production early in the third quarter, will supply coal under a new agreement with terms that can be extended through 2015 (and a minimum term through the end of 2008). The Company also recorded $21.6 million for the estimated asset retirement obligations associated with the acquired assets.

In the third quarter of 2005, the Company exchanged certain idle steam coal reserves for steam and metallurgical coal reserves as part of a contractual dispute settlement. Under the settlement, the Company received $10.0 million in cash, a new coal supply agreement that partially replaced the disputed coal supply agreement, and exchanged the idle steam coal reserves. As a result of the final settlement and based on the fair values of the items exchanged in the overall settlement transaction, the Company recorded net contract losses of $4.0 million and a gain on assets exchanged of $37.4 million. The fair value of assets exchanged exceeded the book value by $33.4 million, a non-cash addition which is not included in "Additions to property, plant, equipment and mine development" in the consolidated statement of cash flows.

In the fourth quarter of 2005, the Company acquired rail, loadout and surface facilities as well as other mining assets from another major coal producer for $84.7 million and exchanged 60 million ton blocks of leased coal reserves in the Powder River Basin. The Company will utilize these reserves and infrastructure to accelerate the development of a new mine, which will include adjoining Company-leased reserves.

Postretirement Prescription Drug Benefit

1.64

STANDARD MOTOR PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements (In Part)

Medicare Prescription Drug, Improvement and Modernization Act of 2003

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Reform Act") was signed into law. In connection with the Medicare Reform Act, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP No. FAS 106-2 provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D and are therefore entitled to receive subsidies from the federal government beginning in 2006. The FSP was adopted for periods beginning after July 1, 2004. Under the FSP, if a company concludes that its defined benefit post-retirement benefit plan is actuarially equivalent to the Medicare Part D benefit, the employer should recognize subsidies from the federal government in the measurement of the accumulated post-retirement benefit obligation ("APBO") under Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions." The resulting reduction of the APBO should be accounted for as an actuarial gain. On January 21, 2005, the Centers for Medicare and Medicaid Services ("CMS") released final regulations implementing major provisions of the Medicare Reform Act of 2003. The regulations address key concepts, such as defining a plan, as well as the actuarial equivalence test for purposes of obtaining a government subsidy. Pursuant to the guidance in FSP No. FAS 106-2, we have assessed the financial impact of the regulations and concluded that our post-retirement benefit plan will qualify for the direct subsidies and that our APBO decreased by $9.3 million. As a result, our 2005 post-retirement benefit cost decreased by $1.1 million. The impact of the Medicare Reform Act on our post-retirement plan was compounded by changes made during the year in the modalities of the plan, namely regarding increased participant contributions and reduced eligibility. Other than the aforementioned changes, the impact of the Medicare Reform Act had been estimated to be immaterial and therefore not included in previous actuarial evaluations.

14 (In Part): Post-Retirement Medical Benefits

We provide certain medical and dental care benefits to eligible retired employees. Our current policy is to fund the cost of the health care plans on a pay-as-you-go basis.

In December 2003, the Medicare Reform Act was signed into law. The Medicare Reform Act expanded Medicare to include, for the first time, coverage for prescription drugs. In connection with the Medicare Reform Act, the FASB issued FSP No. FAS 106-2, which provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D and are therefore entitled to receive subsidies from the federal government beginning in 2006. On January 21, 2005, the Centers for Medicare and Medicaid Services ("CMS") released final regulations implementing major provisions of the Medicare Reform Act. The regulations address key concepts, such as defining a plan, as well as the actuarial equivalence test for purposes of obtaining a government subsidy. Pursuant to the guidance in FSP No. FAS 106-2, we have assessed the financial impact of the regulations and concluded that our post-retirement benefit plan will be qualified for the direct subsidies, and our APBO decreased by $9.3 million. As a result, our 2005 post-retirement benefit cost decreased by approximately $1.1 million. The impact of the Medicare Reform Act on our post-retirement plan was compounded by changes made during the year in the modalities of the plan, namely regarding increased participant contributions and reduced eligibility. Other than the aforementioned changes, the impact of the Medicare Reform Act had been estimated to be immaterial and therefore not included in previous actuarial evaluations.

Inventories

1.65

HERCULES INCORPORATED (DEC)

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

Summary of Significant Accounting Policies (In Part)

Changes in Accounting Principle

The Company recognizes the effects of accounting changes, including changes in accounting principle, in accordance with Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). When applicable, the Consolidated Financial Statements include the specific transition requirements associated with new accounting pronouncements. As required by SFAS 154, voluntary changes in accounting principles require retrospective application to the earliest fiscal period presented. Note 21 provides a summary of the financial statement effects and required disclosures applicable to those accounting changes implemented during the periods presented.

Inventories

Foreign and domestic inventories are stated at the lower of cost or market and are valued principally on the weighted-average-cost method. Elements of costs in inventories include raw materials, direct labor and manufacturing overhead.

During 2005, the Company elected to change its method of accounting for certain inventories located in the United States from the LIFO method to the weighted-average method. Financial statements of prior years have been adjusted to apply the weighted-average cost method retrospectively.

21 (In Part): Changes in Accounting Principle

Inventories

Effective January 1, 2005, the Company elected to change its method of accounting for inventories located in the United States and previously valued using the LIFO method to the weighted average method to better reflect the current value of inventory in the balance sheet and to provide a better matching of revenue and expense in the statement of operations. Comparative financial statements of prior years have been adjusted to apply the weighted average method retrospectively. As a result of the accounting change, retained earnings as of January 1, 2003 was increased by $13.2 million from $1,449.8 million, as originally reported, to $1,463.0 million.

The following tables reflect the changes to those financial statement line items of the prior year financial statements:

	2004			2003		
	As Originally Reported	Effect of Change	As Adjusted	As Originally Reported	Effect of Change	As Adjusted
Statement of operations line items:						
Cost of sales	$1,309.6	$ (2.0)	$1,307.6	$1,167.6	$ (0.7)	$1,166.9
Profit from operations	226.9	2.0	228.9	254.8	0.7	255.5
Provision for income taxes	1.7	0.7	2.4	21.1	0.2	21.3
Net income from continuing operations	26.8	1.3	28.1	74.0	0.5	74.5
Net income	$ 26.8	$ 1.3	$ 28.1	$ 44.9	$ 0.5	$ 45.4
Basic earnings per share from:						
Continuing operations	$ 0.25	$0.01	$ 0.26	$ 0.69	$0.01	$ 0.70
Net income	$ 0.25	$0.01	$ 0.26	$ 0.42	$0.01	$ 0.43
Diluted earnings per share from:						
Continuing operations	$ 0.25	$0.01	$ 0.26	$ 0.69	$ —	$ 0.69
Net income	$ 0.25	$0.01	$ 0.26	$ 0.42	$ —	$ 0.42
Statement of cash flows line items:						
Net income	$ 26.8	$ 1.3	$ 28.1	$ 44.9	$ 0.5	$ 45.4
Deferred income tax provision	(19.4)	0.7	(18.7)	7.5	0.2	7.7
Inventories	6.0	(2.0)	4.0	(6.7)	(0.7)	(7.4)
Net cash provided by operating activities	$ 120.5	$ —	$ 120.5	$ 22.8	$ —	$ 22.8

	As of December 31, 2004		
	As Originally Reported	Effect of Change	As Adjusted
Balance sheet line items:			
Inventories	$ 189.4	$23.0	$ 212.4
Deferred income taxes—current	44.8	(8.1)	36.7
Total assets[1]	$2,710.2	$10.1	$2,720.3
Retained earnings	1,521.5	15.0	1,536.5
Total liabilities and stockholders' equity[1]	$2,710.2	$10.1	$2,720.3

[1] Also includes the reclassification of $4.9 million related to VAT receivables and payables.

Accounting Changes and Corrections

1.66

MOHAWK INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

p (In Part): Effect of New Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this standard, if any, will depend upon accounting changes or errors that may occur in future periods. The Company adopted SFAS 154 effective December 31, 2005.

CONSOLIDATION POLICIES

1.67 Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, states in part:

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

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

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

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

1.70 Financial Accounting Standards Board Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities*, clarifies the application of *ARB No. 51* to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. *ARB No. 51* requires that consolidated financial statements include subsidiaries in which the company has a controlling financial interest, i.e., a majority voting interest. Application of the majority voting interest requirement to certain types of entities may not identify the party with a controlling financial interest because that interest may be achieved through other arrangements. Under *FIN No. 46(R)*, a company shall consolidate a variable interest entity if that company has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. In determining whether it is a primary beneficiary of a variable interest entity, a company shall treat variable interests in that same entity held by the company's related parties as its own interest.

1.71 Examples of consolidation practice disclosures follow.

1.72

TABLE 1-9: NONHOMOGENEOUS OPERATIONS—CONSOLIDATED

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Credit	59	67	56	54
Insurance	19	16	12	12
Real estate	11	13	7	3
Leasing	9	14	14	9
Banks	2	3	1	2

1.73

HERMAN MILLER, INC. (MAY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting and Reporting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Herman Miller, Inc., and its majority-owned domestic and foreign subsidiaries. Effective May 29, 2004, the consolidated financial statements also include variable interest entities (VIEs) of which Herman Miller, Inc. is the primary beneficiary as further described in Note 4, *Variable Interest Entities.* The consolidated entities are collectively referred to as the "company." All significant intercompany accounts and transactions, including those involving VIEs, have been eliminated in the consolidated financial statements.

4. Variable Interest Entities

Effective May 29, 2004, the company adopted FIN 46(R). This resulted in the consolidation of two variable interest entities (VIEs) of which the company was considered the primary beneficiary. The company's variable interests in these VIEs are the result of providing subordinated debt to and/or guarantees on behalf of two independent dealerships created prior to January 31, 2003.

Due to the company's history of providing on-going subordinated financial support to these dealerships, through consolidation the company recognizes all net losses of the VIEs in excess of the equity at the dealerships. The company recognizes net earnings of these VIEs only to the extent of recouping the company's associated losses previously recognized. Earnings in excess of the company's losses are excluded from the company's earnings and attributed to equity owners of the dealerships by recording such earnings as minority interest on the company's financia statements.

Upon adoption in fiscal 2004, the consolidation of the VIEs resulted in loss of $0.5 million or $.01 per share, net of $0.4 million tax expense, recognized as a cumulative effect of a change in accounting principle. As permitted under FIN 46(R), prior periods were not restated. The cumulative effect adjustment represents the difference between the fair value of the VIEs assets, liabilities, and minority interests recorded upon consolidation (determined as if those entities were previously consolidated) and the carrying value of the interests in the VIEs previously recorded by the company. Since the consolidation of the VIEs was performed as of May 29, 2004, there was no other significant impact to the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows in fiscal 2004 other than the cumulative effect adjustment.

During the first quarter of fiscal 2005, a qualifying triggering event occurred with one of the VIEs, which resulted in reconsideration under FIN 46(R). Based on this reconsideration, it was determined that the company is no longer considered the primary beneficiary. As such, the company recorded the ownership transition and ceased consolidation of the independent dealership in the first quarter of fiscal 2005. This resulted in a pre-tax gain of $0.5 million, which is reflected in "Other Expenses (Income)" in the Consolidated Statements of Operations. In connection with this ownership transition, the company incurred a $1.5 million cash outflow in the first quarter of fiscal 2005 related to the payment of the outstanding bank debt of the VIE. Excluding the gain on the ownership transition in the first quarter, the consolidation of the remaining VIE increased net sales by $13.2 million and reduced net earnings by $0.1 million in fiscal 2005.

The effect of VIE consolidation on the company's Consolidated Balance Sheet at May 28, 2005, was an increase in both the company's assets and liabilities of approximately $1.3 million. At May 29, 2004, the company's assets and liabilities increased by $2.0 million and $2.6 million, respectively, as a result of consolidating the VIEs. The liabilities of the VIEs consolidated by the company do not represent additional claims on the company's general assets; rather they represent claims against the specific assets of the VIEs. Likewise, the assets of the VIEs consolidated by the company do not represent additional assets available to satisfy claims against the company's general assets. To offset the credit risk associated with the company's variable interests in the VIEs, the company holds a security interest in the assets of the VIEs subordinate only to third-party bank interests.

1.74

MONSANTO COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States. These statements pertain to Monsanto and its controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. Investments in other companies over which Monsanto has the ability to exercise significant influence (generally through an ownership interest greater than 20 percent) are included in the other assets item in the Statement of Consolidated Financial Position. Monsanto's share of these companies' net earnings or losses is included in other expense—net in Monsanto's Statement of Consolidated Operations.

Arrangements with other business enterprises are also evaluated, and those in which Monsanto is determined to have controlling financial interest are consolidated. In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), and amended it by issuing FIN 46R in December 2003. FIN 46R addresses the consolidation of business enterprises to which the usual condition of consolidation (ownership of a majority voting interest) does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that, in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is required to consolidate the assets, liabilities and results of operations of the variable interest entity in its financial statements.

Monsanto has an arrangement with a special-purpose entity to provide a financing program for selected Monsanto customers. This special-purpose entity is consolidated in accordance with FIN 46R. For other types of variable interest entities, the company has evaluated its relationships with two entities and has determined that, although the entities are variable interest entities and Monsanto holds variable interests in the entities, these entities are not required to be consolidated in the company's financial statements pursuant to FIN 46R because Monsanto is not the primary beneficiary. One entity is a biotechnology company focused on plant gene research, development and commercialization, in which the company had a 9 percent equity investment as of Aug. 31, 2005. Monsanto currently has an agreement in place under which Monsanto makes payments for research services and receives rights to intellectual property developed within funded research. The entity reported total assets of $33 million and total liabilities of $12 million as of Aug. 31, 2005, and revenues of $26 million for the 12 months ended Aug. 31, 2005. The second entity is a joint venture in which the company has a 49 percent equity investment. This joint venture packages and sells seeds, with a focus on corn and sunflower seeds, and also sells and distributes agricultural chemical products. The joint venture reported total assets of $20 million and total liabilities of $11 million as of Aug. 31, 2005, and revenues of $19 million for the 12 months ended Aug. 31, 2005. As of Aug. 31, 2005, Monsanto's total estimate of maximum exposure to loss as a result of its relationships with these entities was approximately $22 million, which represents Monsanto's equity investments in these entities.

1.75

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or our), and its majority-owned subsidiaries. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). Prior to 2005, our PDI manufacturing division included our Specialty Chemicals segment, which consisted of Columbian Chemicals Company and its subsidiaries (Columbian Chemicals or Columbian). On November 15, 2005, the Company entered into an agreement to sell Columbian Chemicals. As a result of this proposed transaction, the operating results of Columbian have been reported separately from continuing operations and shown as discontinued operations in the Consolidated Statement of Income for all periods presented. Also, at December 31, 2005, the related assets and liabilities of Columbian Chemicals have been presented separately in the Consolidated Balance Sheet as assets held for sale and liabilities related to assets held for sale.

In accordance with the Financial Accounting Standards Board's (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," (FIN 46) and the revised Interpretation (FIN 46-R), beginning January 1, 2004, we fully consolidated the results of operations for our El Abra and Candelaria mines in Chile, in which we hold 51 percent and 80 percent partnership interests, respectively, and report minority interests in our Consolidated Financial Statements. Historically, the Company had accounted for its partnership interests in these mines using the proportional consolidation method. (For further discussion, refer to this note under New Accounting Pronouncements—FASB Interpretation No. 46.)

Other investments in undivided interests and unincorporated mining joint ventures that are limited to the extraction of minerals are accounted for using the proportional consolidation method, which include the Morenci mine, located in Arizona, in which we hold an 85 percent undivided interest. In addition, prior to 2004, the Chino mine, located in New Mexico, was accounted for using the proportional consolidation method. We held a two-thirds partnership interest in the Chino mine through December 18, 2003, and a 100 percent interest thereafter. Interests in other majority-owned subsidiaries are reported using the full consolidation method. We include 100 percent of the assets and liabilities of these subsidiaries and report the minority interests in our Consolidated Financial Statements. All material intercompany balances and transactions are eliminated.

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

1.76

ROCKWELL AUTOMATION, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and controlled majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in affiliates over which we have the ability to exert significant influence, but that we do not control and are not the primary beneficiary of, including Rockwell Scientific Company LLC (RSC), are accounted for using the equity method of accounting. Accordingly, our proportional share of the respective affiliate's earnings or losses is included in other income (expense) in the Consolidated Statement of Operations. Investments in affiliates over which we do not have the ability to exert significant influence are accounted for using the cost method of accounting. These affiliated companies are not material individually or in the aggregate to our financial position, results of operations or cash flows.

BUSINESS COMBINATIONS

1.77 SFAS No. 141, *Business Combinations* requires that the purchase method be used for all business combinations initiated after June 30, 2001. Paragraphs 51–58 set forth required disclosures for business combinations.

1.78 During 2005, 316 survey companies used the purchase method to account for a business combination.

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

1.80

TABLE 1-10: BUSINESS COMBINATION DISCLOSURES

	2005	2004	2003	2002
Method of payment:				
Cash only	228	194	164	196
Cash and stock	23	31	31	44
Stock only	9	13	13	22
Other—described	12	12	21	13
Intangible assets not subject to amortization	223	184	156	167
Intangible assets subject to amortization	173	145	105	124
Preliminary allocation of acquisition cost	124	99	63	80
Supplemental pro forma information	86	78	43	85
Contingent payments	50	51	31	29
Purchased research and development costs	28	27	25	25

Purchase Method

1.81

AT&T INC. (DEC)

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

Note 2 (In Part): Acquisitions and Dispositions

Acquisitions

AT&T Corp.

In November 2005, we acquired ATTC in a transaction accounted for under FAS 141. ATTC was one of the nation's largest business service communications providers, offering a variety of global communications services, including large domestic and multinational businesses, small and medium-sized businesses and government agencies. ATTC operated one of the largest telecommunications networks in the U.S. with enterprise networking services available in 127 countries at December 31, 2005. ATTC was also a provider of domestic and international long-distance and usage-based-communications services to consumer customers.

Under the merger agreement, each share of ATTC common stock was exchanged for 0.77942 of a share of our common stock. We issued approximately 632 million shares to ATTC shareholders, giving them an approximate 16 percent stake in the combined company, based on common shares outstanding. In addition, immediately prior to the closing of the transaction, ATTC paid each ATTC shareholder a special dividend of $1.30 per share. Based on the $24.17 per share closing price of our common stock on the New York Stock Exchange (NYSE) on November 17, 2005, the last trading day before the closing of the merger, combined with the special dividend, consideration received by ATTC shareholders was approximately $16,300.

Based on the average closing price of our common stock on the NYSE for the two days prior to, including, and two days subsequent to the public announcement of the merger (January 31, 2005) of $23.87 and capitalized merger-transaction costs, the transaction was valued, for accounting purposes, at approximately $15,517. ATTC is now a wholly owned subsidiary of AT&T and the results of ATTC's operations have been included in our consolidated financial statements after the November 18, 2005 acquisition date.

We paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired for a number of reasons, including the following:

Strategic Fit

- Our company will benefit from ATTC's assets and capabilities, including: a state-of-the-art nationwide and global communications network; advanced technological capabilities in data and internet protocol (IP)-based services; sales and service expertise for complex communications services; and significant product and service development capabilities in AT&T Labs, a leading communications research organization.
- The merger will combine our broad consumer and small- and medium-business customer base with ATTC's enterprise and government customer bases.
- The combined company will have a strong, diversified set of products and service offerings.

Cost Savings and Revenue Synergies

- Combined network operations and IT expenses will decrease, as facilities and operations will be consolidated.
- Sales and support functions of the business services organizations will be combined.
- Duplicate corporate functions will be eliminated.

Technological Strength

- In acquiring ATTC's assets, which include an advanced product portfolio as well as a leading communications research organization (AT&T Labs), we will now have additional resources and skills to innovate and more quickly deliver to customers the next generation of advanced, integrated IP-based wireline and wireless communications services.

The application of purchase accounting under FAS 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. The allocation process requires an analysis of acquired fixed assets, contracts, customer lists and relationships, contractual commitments, legal contingencies and brand value to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values were based on, but not limited to: future expected discounted cash flows for trade names and customer relationships; current replacement cost for similar capacity and obsolescence for certain fixed assets; comparable market rates for contractual obligations and certain investments, real estate and liabilities, including pension and postretirement benefits; expected settlement amounts for litigation and contingencies, including the AT&T Wireless litigation, and; appropriate discount rates and growth rates.

Under the purchase method of accounting, the assets and liabilities of ATTC were recorded at their respective fair values as of the date of the acquisition, November 18, 2005, and we recorded goodwill of $12,343. We have obtained preliminary third-party valuations of property, plant and equipment, intangible assets (including the AT&T trade name), debt and certain other assets and liabilities. Because of the proximity of this transaction to year end, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to: valuations and physical counts of property, plant and equipment, valuation of investments and the involuntary termination of employees. We will have 12 months from the closing of the acquisition to finalize our valuations. Changes to the valuation of property, plant and equipment may result in adjustments to the fair value of certain identifiable intangible assets acquired. When finalized, material adjustments to goodwill may result.

We have not identified any material unrecorded pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount can be reasonably estimated. Prior to the end of the one-year purchase price allocation period, if information becomes available which would indicate it is probable that such events had occurred and the amounts can be reasonably estimated, such items will be included in the final purchase price allocation and may adjust goodwill.

The following table summarizes the preliminary estimated fair values of the ATTC assets acquired and liabilities assumed and related deferred income taxes as of acquisition date.

	ATTC
Assets acquired	
Current assets	$ 6,295
Property, plant and equipment	10,921
Intangible assets not subject to amortization	
Trade name	4,900
Licenses	40
Intangible assets subject to amortization	
Customer lists and relationships	3,050
Patents	150
Brand licensing agreements	70
Investments in unconsolidated subsidiaries	160
Other assets	4,247
Goodwill	12,343
Total assets acquired	42,176
Liabilities assumed	
Current liabilities, excluding current portion of long-term debt	6,740
Long-term debt	8,293
Deferred income taxes	531
Postemployment benefit obligation	8,807
Other noncurrent liabilities	2,288
Total liabilities assumed	26,659
Net assets acquired	$15,517

Goodwill of $12,343, resulting from the acquisition of ATTC was assigned to the AT&T Corp. segment. However, as part of the final valuation of the acquisition we will determine to which entities and to what extent the benefit of the acquisition applies, and as required by GAAP record the appropriate goodwill to each entity. Goodwill includes a portion of value for assembled workforce which is not separately classified from goodwill in accordance with FAS 141. The purchased intangibles and goodwill are not deductible for tax purposes. However, purchase accounting allows for the establishment of deferred tax liabilities on purchased intangibles (other than goodwill) that will be reflected as a tax benefit on our future Consolidated Statements of Income in proportion to and over the amortization period of the related intangible asset.

Substantially all of the licenses acquired and the trade name of AT&T have an indefinite life, and accordingly, are not subject to amortization. The customer relationships intangible assets are being amortized over a weighted period of 1.5 to 9 years for business customers and 1.5 to 2.5 years for consumer customers, using the sum of the months digits method of amortization. This method best reflects the estimated pattern in which the economic benefits will be consumed. Patent intangible assets include protective and commercialized patents, which are amortized using the straight-line method over 2 to 18 years based on the remaining lives of the patents and have a weighted-average amortization period of 10 years.

ATTC maintained change-in-control provisions with its employees that allowed for enhanced severance and benefit payments. Included in the assets acquired and liabilities assumed above are severance accruals of approximately $1,543, of which $636 will be paid from ATTC's pension plans and $37 from ATTC's postemployment benefit plans. These severance payments are expected to be paid over the next two years.

The following unaudited pro forma consolidated results of operations assume that the acquisition of ATTC was completed as of January 1 for each of the fiscal years shown below.

	2005	2004[1]
Revenues	$66,061	$69,367
Net Income (Loss)	6,167	(74)
Earnings Per Common Share	$ 1.59	$ (0.02)
Earnings Per Common Share—Assuming Dilution	$ 1.59	$ (0.02)

[1] ATTC's 2004 results include an impairment charge on property, plant and equipment of $11,400. Since the triggering event for assessing impairment of long-lived assets occurred in July 2004, it is not adjusted in the pro forma consolidated results.

Pro-forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

Yantra Corporation

In January 2005, our subsidiary Sterling Commerce, Inc. (Sterling), acquired Yantra Corporation (Yantra) for approximately $169 in cash. We recorded goodwill in our wireline segment of approximately $98 associated with this acquisition. Yantra is a provider of distributed order management and supply chain fulfillment services.

1.82

TUPPERWARE BRANDS CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Business Combination

On December 5, 2005, Tupperware acquired 100 percent of the net assets of the direct selling businesses of Sara Lee Corporation (collectively referred to as International Beauty). International Beauty sells a wide variety of consumable products, primary color cosmetics, skin care, fragrances and toiletries in about 20 countries in Latin America and Asia Pacific, Southern Africa and Europe under the brand names House of Fuller, Nutrimetics, NaturCare, Avroy Schlain, Nuvo Cosmeticos and Swissgarde through a sales force of approximately 900,000 independent consultants. This acquisition was made to advance the strategy, begun with the acquisition of Beauti Control in 2000, of adding consumable items to the product category mix by of expanding into beauty and personal care products. The results of operations for International Beauty are included in the Company's Consolidated Statement of Income as of the date of acquisition.

The acquisition cost was $556 million in cash subject to finalization of certain adjustments in accordance with the Securities and Asset Purchase Agreement dated August 10, 2005. The acquisition and the retirement of the Company's then existing $250 million in long term notes, was funded through cash on hand and a new $775 million secured 7-year term loan which carries an interest rate of LIBOR plus 150 basis points. The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values in accordance with SFAS 141, *Business Combinations.* Goodwill, none of which is deductible for tax purposes, and other intangibles recorded in connection with the acquisition totaled $253.7 and $263.0, respectively and are reported within the International Beauty segment. The goodwill amounts recognized in the acquisition result primarily from the acquisition of the assembled workforce, including a management team with a proven track record of success in direct selling as well as, field representatives in several significant markets. Of the $263.0 of acquired intangible assets, $197.4 million was assigned to registered trademarks, which were determined to have indefinite useful lives. Of the remaining balance of intangible assets acquired, $62.0 million was assigned to sales force relationships and $3.6 million was assigned to product formulations which are being amortized over weighted average useful lives of 9 years and 3 year, respectively. Aggregate amortization expense associated with the above intangibles recorded in 2005 subsequent to the acquisition date was $1.8 million and the estimated annual amortization expense for each of the five succeeding years is $24.1 million, $12.9 million, $8.8 million, $5.5 million and $4.0 million, respectively.

The Company is finalizing certain closing date adjustments with the seller as well as, the allocation of income tax adjustments. Therefore the allocation of the purchase price and the valuation of the assets and liabilities are subject to refinement. The Company also anticipates an adjustment to the goodwill balance recorded at December 31, 2005 as it executes re-engineering plans related to the elimination of duplicate functions. These adjustments are not expected to be material. The estimated fair values of assets acquired and liabilities assumed at the acquisition date are as follows.

(In millions)	At December 5, 2005
Current assets	$175.5
Property; plant and equipment	55.4
Other assets	12.9
Intangible assets	263.0
Goodwill	253.7
Total assets acquired	760.5
Total liabilities assumed	209.2
Net assets acquired	$551.3

The unaudited condensed pro forma consolidated statements of income for 2005 and 2004, assuming the acquisition of International Beauty as of the beginning of fiscal 2004 are as follows:

(In millions except per share amounts)	2005	2004
Net sales	$1,724.4	$1,691.1
Operating income	159.3	155.0
Net income from continuing operations	94.1	90.3
Net income from continuing operations per common share		
Basic	$ 1.58	$ 1.55
Diluted	$ 1.55	$ 1.54

These pro forma statements have been prepared for comparative purposes only and are not intended to be indicative of what the Company's results would have been had the acquisition occurred at the beginning of the periods presented or the results which may occur in the future.

Formation of Jointly Owned Companies

1.83

EARTHLINK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Investments

Investment in Equity Affiliate

On March 24, 2005, the Company completed the formation of a joint venture with SK Telecom, HELIO, to market and sell wireless voice and data services in the U.S. Under the terms of the joint venture agreement, EarthLink and SK Telecom each have a 50 percent voting and economic ownership interest in HELIO. EarthLink and SK Telecom, as partners, invested an aggregate of $166.0 million of cash and non-cash assets upon completing the formation of HELIO, invested an aggregate of $78.0 million of cash in August 2005 and have committed to invest additional cash of $196.0 million in HELIO at various dates through August 2007.

On March 24, 2005, the Company invested $43.0 million of cash and contributed non-cash assets valued at $40.0 million, including 27,000 wireless customers, contractual arrangements and agreements to prospectively market HELIO's services. The non-cash assets contributed were recorded by the Company as an additional investment of $0.5 million based on the Company's carrying value of the assets. The Company recorded its initial investment at $43.5 million, reflecting the cash invested plus the carrying value of assets contributed. In addition, the Company paid HELIO to assume $0.9 million of net liabilities associated with wireless customers and related operations. The Company recorded no gain or loss in March 2005 associated with the contribution of non-cash assets, the transfer of net liabilities, or the associated payment to HELIO to assume the net liabilities upon completing the formation of HELIO. In August 2005, the Company contributed $39.0 million of cash pursuant to the HELIO Contribution and Formation Agreement. The Company contributed $39.5 million in February 2006 and is committed to invest an additional $58.5 million of cash in HELIO at various dates through August 2007.

The Company accounts for its investment in HELIO under the equity method of accounting because the Company can exert significant influence over HELIO's operating and financial policies. As a result, the Company records its proportionate share of HELIO's net income (loss) in its statement of operations. During the year ended December 31, 2005, the Company recorded $20.7 million of equity method losses related to its HELIO investment.

The Company is amortizing the difference between the book value and fair value of definite-lived non-cash assets contributed to HELIO over the estimated useful lives of the definite-lived non-cash assets contributed. The amortization increases the carrying value of the Company's investment and decreases the net losses of equity affiliate included in the statement of operations. During the year ended December 31, 2005, the Company recorded $5.1 million of amortization associated with the difference between the carrying value and fair value of assets contributed.

17 (In Part): Related Party Transactions

Helio

EarthLink and HELIO have entered into a services agreement pursuant to which EarthLink provides HELIO facilities, accounting, tax, billing, procurement, risk management, payroll, human resource, employee benefit administration and other support services in exchange for management fees. EarthLink believes that providing these services to HELIO enables HELIO to more quickly and cost effectively launch its business than if it were to purchase these services from third parties. The management fees were determined based on EarthLink's costs to provide the services, and management believes such fees are reasonable. The total amount of fees that HELIO will pay to EarthLink will depend on the extent to which HELIO utilizes EarthLink's services. Fees for services provided to HELIO are reflected as reductions to the associated expenses incurred by EarthLink to provide such services. During the year ended December 31, 2005, fees received for services provided to HELIO were $3.0 million.

EarthLink markets HELIO's products and services, and during the year ended December 31, 2005, EarthLink generated revenues of $0.3 million associated with marketing HELIO's services.

EarthLink purchases wireless Internet access devices and services from HELIO. During the year ended December 31, 2005, fees paid for products and services received from HELIO were $0.9 million.

As of December 31, 2005, the Company had accounts receivable from HELIO of approximately $0.3 million.

CONTINGENCIES

1.84 SFAS No. 5, *Accounting for Contingencies*, defines a contingency as "an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." Paragraphs 8–16 of *SFAS No. 5* set forth standards of financial accounting and reporting for loss contingencies. Paragraph 17 of *SFAS No. 5* states the accounting and reporting standards for gain contingencies. During 2005, 381 survey companies presented a caption for contingencies in the balance sheet. Table 1-11 lists the loss and gain contingencies disclosed in the annual reports of the survey companies.

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

1.86

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Loss Contingencies				
Litigation	521	511	506	514
Environmental	254	213	245	261
Insurance	154	112	122	116
Possible tax assessments	134	112	76	54
Government investigations	127	99	94	96
Other—described	80	38	49	76
Gain Contingencies				
Operating loss carryforward	487	438	416	390
Tax credits and other tax credit carryforwards	246	215	178	166
Capital loss carryforward	76	78	66	56
Alternative minimum tax carryforward	50	71	69	70
Plaintiff litigation	40	33	37	41
Investment credit carryforward	13	15	18	21
Charitable contribution carryforward	11	4	—	—
Asset sale receivable	8	4	10	3
Potential tax refund	7	4	1	1
Other—described	7	6	9	16

LOSS CONTINGENCIES

Litigation

1.87

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Commitments and Contingent Liabilities

General and Product Liability and Other Litigation

We had recorded liabilities totaling $467 million at December 31, 2005 and $549 million at December 31, 2004 for potential product liability and other tort claims, including related legal fees expected to be incurred. Of these amounts, $247 million and $266 million were included in Other current liabilities at December 31, 2005 and 2004, respectively. The amounts recorded were estimated based on an assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and, where available, recent and current trends. We had recorded insurance receivables for potential product liability and other tort claims of $53 million at December 31, 2005 and $117 million at December 31, 2004. Of these amounts, $9 million and $14 million were included in Current Assets as part of Accounts and notes receivable at December 31, 2005 and 2004, respectively.

Asbestos

We are a defendant in numerous lawsuits alleging various asbestos-related personal injuries purported to result from alleged exposure to asbestos in certain rubber encapsulated products or aircraft braking systems manufactured by us in the past, or to asbestos in certain of our facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts. To date, we have disposed of approximately 34,700 claims by defending and obtaining the dismissal thereof or by entering into a settlement. The sum of our accrued asbestos-related liability and gross payments to date, including legal costs, totaled approximately $233 million through December 31, 2005 and $226 million through December 31, 2004. A summary of approximate asbestos claims activity in recent years follows. Because claims are often filed and disposed of by dismissal or settlement in large numbers, the amount and timing of settlements and the number of open claims during a particular period can fluctuate significantly.

(Dollars in millions)	2005	2004	2003
Pending claims, beginning of year	127,300	118,000	99,700
New claims filed during the year	6,200	12,700	26,700
Claims settled/dismissed during the year	(8,000)	(3,400)	(8,400)
Pending claims, end of year	125,500	127,300	118,000
Payments(1)	$ 22	$ 30	$ 30

(1) Represents amount spent by us and our insurers on asbestos litigation defense and claim resolution.

We engaged an independent asbestos valuation firm to review our existing reserves for pending claims, provide a reasonable estimate of the liability associated with unasserted asbestos claims, and determine our receivables from probable insurance recoveries.

We had recorded gross liabilities for both asserted and unasserted claims, inclusive of defense costs, totaling $104 million and $119 million at December 31, 2005 and 2004, respectively. The recorded liability represents our estimated liability over the next four years, which represents the period over which the liability can be reasonably estimated. Due to the difficulties in making these estimates, analysis based on new data and/or a change in circumstances arising in the future could result in an increase in the recorded obligation in an amount that cannot be reasonably estimated, and that increase could be significant. The portion of the liability associated with unasserted asbestos claims and related defense costs was $31 million at December 31, 2005 and $38 million at December 31, 2004. At December 31, 2005, our liability with respect to asserted claims and related defense costs was $73 million, compared to $81 million at December 31, 2004.

We maintain primary insurance coverage under coverage-in-place agreements, and also have excess liability insurance with respect to asbestos liabilities. We have instituted coverage actions against certain of these excess carriers. After consultation with our outside legal counsel and giving consideration to relevant factors including the ongoing legal proceedings with certain of our excess coverage insurance carriers, their financial viability, their legal obligations and other pertinent facts, we determine an amount we expect is probable of recovery from such carriers. We record a receivable with respect to such policies when we determine that recovery is probable and we can reasonably estimate the amount of a particular recovery.

Based upon a model employed by the valuation firm, as of December 31, 2005, (i) we had recorded a receivable related to asbestos claims of $53 million, compared to $108 million at December 31, 2004, and (ii) we expect that approximately 50% of asbestos claim related losses would be recoverable up to our accessible policy limits through the period covered by the estimated liability. Of this amount, $9 million was included in Current Assets as part of Accounts and notes receivable at December 31, 2005 and 2004. The receivable recorded consists of an amount we expect to collect under coverage-in-place agreements with certain primary carriers as well as an amount we believe is probable of recovery from certain of our excess coverage insurance carriers. During the second quarter of 2005, as a result of a court determination, we further refined our method of allocating losses to excess coverage policies, resulting in a reduction in available insurance coverage over the period covered by the estimated liability. The recorded receivable also declined during the second and third quarters due to settlements with certain excess insurance carriers, as discussed below.

We believe that, at December 31, 2005, we had approximately $179 million in aggregate limits of excess level policies potentially applicable to indemnity payments for asbestos products claims, in addition to limits of available primary insurance policies. Some of these excess policies provide for payment of defense costs in addition to indemnity limits. A portion of the availability of the excess level policies is included in the $53 million insurance receivable recorded at December 31, 2005. We also had approximately $20 million in aggregate limits for products claims, as well as coverage for premise claims on a per occurrence basis and defense costs, available with our primary insurance carriers through coverage-in-place agreements at December 31, 2005.

We reached an agreement effective April 13, 2005, to settle our claims for insurance coverage for asbestos and pollution related liabilities with respect to pre-1993 insurance policies issued by certain underwriters at Lloyd's, London, and reinsured by Equitas. The settlement agreement generally provides for the payment of money to us in exchange for the release by us of past, present and future claims under those policies and the cancellation of those policies; agreement by us to indemnify the underwriters from claims asserted under those policies; and includes provisions addressing the impact on the settlement should federal asbestos reform legislation be enacted on or before January 3, 2007.

Under the agreement, Equitas paid $22 million to us and placed $39 million into a trust. The trust funds may be used to reimburse us for a portion of costs we incur in the future to resolve certain asbestos claims. Our ability to use any of the trust funds is subject to specified confidential criteria, as well as limits on the amount that may be drawn from the trust in any one month. If federal asbestos reform legislation is enacted into law on or prior to January 3, 2007, then the trust would repay Equitas any amount it is required to pay with respect to our asbestos liabilities as a result of such legislation up to the amount remaining in the trust at that time. If such legislation is not enacted by that date any funds remaining in the trust will be disbursed to us to enable us to meet future asbestos-related liabilities or for other purposes.

We also reached an agreement effective July 27, 2005, to settle our claims for insurance coverage for asbestos and pollution related liabilities with respect to insurance policies issued by certain other non-Equitas excess insurance carriers which participated in policies issued in the London Market. The settlement agreement generally provided for the payment of $25 million to us in exchange for the release by us of past, present and future claims under those policies and the cancellation of those policies; and agreement by us to indemnify the underwriters from claims asserted under those policies.

We believe that our reserve for asbestos claims, and the receivable for recoveries from insurance carriers recorded in respect of these claims, reflect reasonable and probable estimates of these amounts, subject to the exclusion of claims for which it is not feasible to make reasonable estimates. The estimate of the assets and liabilities related to pending and expected future asbestos claims and insurance recoveries is subject to numerous uncertainties, including, but not limited to, changes in:

- the litigation environment,
- Federal and state law governing the compensation of asbestos claimants,
- recoverability of receivables due to potential insolvency of carriers,
- our approach to defending and resolving claims, and
- the level of payments made to claimants from other sources, including other defendants.

As a result, with respect to both asserted and unasserted claims, it is reasonably possible that we may incur a material amount of cost in excess of the current reserve, however, such amount cannot be reasonably estimated. Coverage under insurance policies is subject to varying characteristics of asbestos claims including, but not limited to, the type of claim (premise vs. product exposure), alleged date of first exposure to our products or premises and disease alleged. Depending upon the nature of these characteristics, as well as the resolution of certain legal issues, some portion of the insurance may not be accessible by us.

Heatway (Entran II)

On June 4, 2004, we entered into an amended settlement agreement that was intended to address the claims arising out of a number of Federal, state and Canadian actions filed against us involving a rubber hose product, Entran II. We supplied Entran II from 1989 to 1993 to Chiles Power Supply, Inc. (d/b/a Heatway Systems), a designer and seller of hydronic radiant heating systems in the United States. Heating systems using Entran II are typically attached or embedded in either indoor flooring or outdoor pavement, and use Entran II hose as a conduit to circulate warm fluid as a source of heat. We had recorded liabilities related to Entran II claims totaling $248 million and $307 million at December 31, 2005 and 2004, respectively.

On October 19, 2004, the amended settlement received court approval. As a result, we have made, or will make annual cash contributions to a settlement fund of $60 million, $40 million, $15 million, $15 million and $20 million in 2004, 2005, 2006, 2007 and 2008, respectively. In addition to these annual payments, we contributed approximately $174 million received from insurance contributions to the settlement fund pursuant to the terms of the settlement agreement. We do not expect to receive any additional insurance reimbursements for Entran II related matters.

Forty-one sites remain opted-out of the amended settlement. One action involving approximately nine of these sites is currently pending against us, and additional actions may be filed against us in the future. Although any liability resulting from the opt-outs will not be covered by the amended settlement, we will be entitled to assert a proxy claim against the settlement fund for the payment such claimant would have been entitled to under the amended settlement.

In addition to the sites that have been opted-out of the amended settlement, any liability related to six actions in which we have received adverse judgments also will not be covered by the amended settlement. With respect to three of these matters, however, we will be entitled to assert a proxy claim against the settlement fund for amounts (if any) paid to plaintiffs in these actions.

The ultimate cost of disposing of Entran II claims is dependent upon a number of factors, including our ability to resolve claims not subject to the amended settlement (including the cases in which we have received adverse judgments), the extent to which the liability, if any, associated with such a claim may be offset by our ability to assert a proxy claim against the settlement fund and whether or not claimants opting-out of the amendment settlement pursue claims against us in the future.

Other Actions

We are currently a party to various claims and legal proceedings in addition to those noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available; any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting us from selling one or more products. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the financial position and results of operations of the period in which the ruling occurs, or future periods.

1.88

VIACOM INC. (DEC)

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

15 (In Part): Commitments and Contingencies

Legal Matters

In July 2002, judgment was entered in favor of Former Viacom, Blockbuster, Paramount Home Entertainment and other major motion picture studios and their home video subsidiaries with respect to a complaint filed in the United States District Court for the Western District of Texas. The complaint included federal antitrust and California state law claims. In August 2003, the U.S. Court of Appeals for the Fifth Circuit affirmed the federal court judgment. The U.S. Supreme Court refused plaintiffs' petition for writ of certiorari in March 2004. In February 2003, a similar complaint that had been filed in a Los Angeles County Superior Court was also dismissed with prejudice. The plainfiffs appealed the California state court dismissal, as well as a prior denial of class certification. On November 22, 2005, the California Court of Appeal affirmed the trial court's dismissal of the antitrust and conspiracy claims. The court reversed the dismissal of California Unfair Practices Act and Unfair Competition Act claims and remanded those claims to the trial court, except with regard to transactions between Paramount and Blockbuster as to which the trial court dismissal was affirmed. Blockbuster remains a defendant in the case with respect to our transactions with studios other than Paramount. As the result of the split-off of Blockbuster from Former Viacom in 2004, any judgment in this matter adverse to Former Viacom, Blockbuster and/or Paramount Home Entertainment may be allocated 33.33% to Blockbuster and 66.67% to Viacom. Pursuant to the Separation Agreement, Viacom has assumed and will indemnify CBS Corporation for Former Viacom's responsibility for losses in this matter.

On July 13, 2005, two identical shareholder derivative lawsuits were filed against Former Viacom. The suits, consolidated as *In re Viacom Shareholders Derivative Litigation*, relate to the compensation of Sumner Redstone, Tom Freston and Leslie Moonves, each of whom were executive officers of Former Viacom. Mr. Redstone is currently Viacom's Executive Chairman of the Board and Founder and Mr. Freston is Viacom's President and Chief Executive Officer. Mr. Moonves is the President and Chief Executive Officer of CBS Corporation. The plaintiffs claim that the compensation of these officers was excessive and unwarranted and not entirely fair to Former Viacom and its shareholders. Plaintiffs seek disgorgement of compensation paid to the named officers in 2004, unspecified damages from members of Former Viacom's Board of Directors for alleged breach of fiduciary duty, and other relief. Prior to the separation, Former Viacom moved to dismiss the case on both procedural and substantive grounds. No decision has been rendered on the motion. Former Viacom also was served with several shareholder demands for business records under Delaware law in connection with the shareholders' purported investigations of similar claims. Under the Separation Agreement, liabilities in connection with executive compensation claims relating to officers of Former Viacom are shared equally by Viacom and CBS Corporation.

In late 2005 and early 2006, Former Viacom was named as a defendant in three lawsuits in the United States District Court for the Northern District of Texas and one lawsuit in the United States District Court for the Southern District of New York, each relating to the 2004 split-off of Blockbuster from Former Viacom. Each of the lawsuits names as defendants NAI, Former Viacom and Blockbuster, and certain of their respective present and former officers and directors, including some individuals who are officers and directors of New Viacom. The Texas lawsuits are purported class actions which allege violations of the federal securities laws. The New York case is a purported class action which alleges that the defendants breached fiduciary obligations to the Blockbuster Investment Plan in violation of the Employee Retirement Income Security Act by continuing to offer to plan participants Blockbuster stock from and after November 2003 and by offering to plan participants the opportunity to exchange their shares of Former Viacom common stock for the shares of Blockbuster common stock that were owned by Former Viacom in connection with the 2004 split-off transaction. Plaintiffs in each of the lawsuits allege that the defendants made untrue statements of material facts and concealed and failed to disclose material facts with respect to Blockbuster's business prospects. The lawsuits seek damages in unspecified amounts and other relief. In connection with the split-off, Blockbuster agreed to indemnify Former Viacom and our employees, officers and directors with respect to liabilities arising out of any material untrue statements and omissions in those portions of the 2004 Prospectus—Offer to Exchange relating to the split-off that were provided by Blockbuster. Pursuant to the Separation Agreement, we will indemnify CBS Corporation for any losses arising from these lawsuits.

Viacom believes that the plaintiffs' positions in these litigations are without merit and intends to vigorously defend itself in the litigations. Litigation is inherently uncertain and always difficult to predict. However, based on Viacom's understanding and evaluation of the relevant facts and circumstances, it believes that the above-described legal matters and other litigation to which it is a party are not likely, in the aggregate, to have a material adverse effect on its results of operations, financial position or cash flows.

Environmental Matters

1.89

PHELPS DODGE CORPORATION (DEC)

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

1 (In Part): Summary of Significant Accounting Policies

Environmental Expenditures

Environmental expenditures are expensed or capitalized, depending upon their future economic benefits. Liabilities for such expenditures are recorded when it is probable that obligations have been incurred and the costs can be reasonably estimated. For closed facilities and closed portions of operating facilities with environmental obligations, an environmental liability is accrued when a decision to close a facility or a portion of a facility is made by management, and when the environmental liability is considered to be probable. Environmental liabilities attributed to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) or analogous state programs are considered probable when a claim is asserted, or is probable of assertion, and we have been associated with the site. Other environmental remediation liabilities are considered probable based on the specific facts and circumstances. Our estimates of these costs are based upon available facts, existing technology and current laws and regulations, and are recorded on an undiscounted basis. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. The possibility of recovery of some of these costs from insurance companies or other parties exists; however, we do not recognize these recoveries in our financial statements until they become probable. Legal costs associated with environmental remediation as defined in Statement of Position 96-1, "Environmental Remediation Liabilities," are reserved as part of the environmental liability.

21 (In Part): Contingencies

Environmental

Phelps Dodge is subject to various stringent federal, state and local environmental laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. The Company also is subject to potential liabilities arising under CERCLA or similar state laws that impose responsibility on persons who arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the cleanup of hazardous substances released from the facility into the environment, including injuries to natural resources. In addition, the Company is subject to potential liabilities under the Resource Conservation and Recovery Act (RCRA) and analogous state laws that require responsible parties to remediate releases of hazardous or solid waste constituents into the environment associated with past or present activities.

Phelps Dodge or its subsidiaries have been advised by EPA, the U.S. Forest Service and several state agencies that they may be liable under CERCLA or similar state laws and regulations for costs of responding to environmental conditions at a number of sites that have been or are being investigated by EPA, the U.S. Forest Service or states to determine whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions to address environmental concerns. Phelps Dodge also has been advised by trustees for natural resources that the Company may be liable under CERCLA or similar state laws for injuries to natural resources caused by releases of hazardous substances.

Phelps Dodge has established reserves for potential environmental obligations that management considers probable and for which reasonable estimates can be made. For closed facilities and closed portions of operating facilities with environmental obligations, an environmental liability is accrued when a decision to close a facility or a portion of a facility is made by management, and when the environmental liability is considered to be probable. Environmental liabilities attributed to CERCLA or analogous state programs are considered probable when a claim is asserted, or is probable of assertion, and we have been associated with the site. Other environmental remediation liabilities are considered probable based upon specific facts and circumstances. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, Phelps Dodge's experience in remediation, other companies' remediation experience, Phelps Dodge's status as a potentially responsible party (PRP), and the ability of other PRPs to pay their allocated portions. Accordingly, total environmental reserves of $367.9 million and $303.6 million were recorded as of December 31, 2005 and 2004, respectively. The long-term portion of these reserves is included in other liabilities and deferred credits on the Consolidated Balance Sheet and amounted to $285.6 million and $239.5 million at December 31, 2005 and 2004, respectively.

The site currently considered to be the most significant is the Pinal Creek site near Miami, Arizona. The sites with the most significant reserve changes in 2005 were the Anniston Lead and PCB sites, and the Laurel Hill site, and in 2004, the Yonkers site.

Pinal Creek Site

The Pinal Creek site was listed under the Arizona Department of Environmental Quality (ADEQ) Water Quality Assurance Revolving Fund program in 1989 for contamination in the shallow alluvial aquifers within the Pinal Creek drainage near Miami, Arizona. Since that time, environmental remediation has been performed by the members of the Pinal Creek Group (PCG), comprising Phelps Dodge Miami, Inc. (a wholly owned subsidiary of the Company) and two other companies. In 1998, the District Court approved a Consent Decree between the PCG members and the state of Arizona resolving all matters related to an enforcement action contemplated by the state of Arizona against the PCG members with respect to the groundwater matter. The Consent Decree committed Phelps Dodge Miami, Inc. and the other PCG members to complete the remediation work outlined in the Consent Decree. That work continues at this time pursuant to the Consent Decree and consistent with state law and the National Contingency Plan prepared by EPA under CERCLA.

Phelps Dodge Miami, Inc. and the other PCG members have been pursuing contribution litigation against three other parties involved with the site. Phelps Dodge Miami, Inc. dismissed its contribution claims against one defendant when another PCG member agreed to be responsible for any share attributable to that defendant. Phelps Dodge Miami, Inc. and the other members of the PCG settled their contribution claims against another defendant In April 2005, which resulted in cancellation of the Phase I trial. While the terms of the settlement are confidential, the proceeds of the settlement will be used to address remediation at the Pinal Creek site. The Phase II trial, which will allocate liability, is scheduled for October 30, 2006, subject to approval by the trial judge.

While significant recoveries may be achieved in the contribution litigation, the Company cannot reasonably estimate the amount and, therefore, has not taken potential recoveries into consideration in the recorded reserve.

Phelps Dodge Miami, Inc.'s share of the planned remediation work based on the interim agreements between the parties has a cost range for reasonably expected outcomes estimated to be from $104 million to $211 million. Approximately $108 million remained in the Company's Pinal Creek remediation reserve at December 31, 2005.

Anniston Lead and PCB Sites

Phelps Dodge Industries, Inc. (PDII) formerly operated a brass foundry in Anniston, Alabama, and has been identified by EPA as a PRP at the Anniston Lead and PCB sites. The Anniston Lead site consists of lead contamination originating from historical industrial operations in and about Anniston; the Anniston PCB site consists of PCB contamination originating primarily from historical PCB manufacturing operations in Anniston. Pursuant to an administrative order on consent/settlement agreement (Settlement Agreement), PDII, along with 10 other parties identified by EPA as PRPs, agreed to conduct a non-time-critical removal action at certain residential properties identified to have lead and PCB contamination above certain thresholds. While PDII and the other parties to the Settlement Agreement have some responsibility to address residential PCB contamination, that responsibility is limited, with EPA characterizing PDII and the parties to the Settlement Agreement as de minimis PRPs. The Settlement Agreement was subject to public comment, which ended on October 11, 2005. Upon EPA issuance of its response to public comment, the Settlement Agreement became final on January 17, 2006. PDII and the other PRPs have entered into an interim cost-sharing agreement that assigns PDII approximately one-eighth of the costs to be incurred under the Settlement Agreement. During the 2005 third quarter, PDII increased its reserve by approximately $20 million to a total reserve of approximately $27 million at December 31, 2005, which covers remedial costs, PRP group settlement costs, and legal and consulting costs.

Laurel Hill Site

Phelps Dodge Refining Corporation, a subsidiary of the Company, owns a portion of the Laurel Hill property in Maspeth, New York, that formerly was used for metal-related smelting, refining and manufacturing. All industrial operations at the Laurel Hill site ceased in 1984. In June 1999, the Company entered into an Order on Consent with New York State Department of Environmental Conservation (NYSDEC) that required the Company to perform, among other things, a remedial investigation and feasibility study relating to environmental conditions and remedial options at the Laurel Hill site. NYSDEC issued a final remedial decision in January 2003 in the form of a Record of Decision (ROD) regarding the property. The Company expects to complete the work under the ROD in 2006.

In July 2002, Phelps Dodge entered into another Order on Consent with NYSDEC requiring the Company to conduct a remedial investigation and feasibility study relating to sediments in Newtown and Maspeth Creeks, which are located contiguous to the Laurel Hill site. The Company commenced the remedial investigation in 2004. The Company is currently scheduled to submit to the NYSDEC in 2006 its remedial investigation report and its remedial feasibility report. The Company is currently engaged in settlement discussions with the NYSDEC concerning the types of remedial actions in the feasibility study that would be acceptable to the agency. Based on the types of remedial actions being discussed and associated transactional costs, the environmental reserve was increased to approximately $20 million in December 2005. The amount encompasses ongoing consulting and legal costs to complete the required studies and assess contributions from other potential parties plus remedial action costs for impacted sediments associated with the Laurel Hill site.

Yonkers Site

In 1984, the Company sold a cable manufacturing facility located in Yonkers, New York. Pursuant to the sales agreement, the Company agreed to indemnify the buyer for certain environmental liabilities at the facility. In 2000, the owner of the property entered into a consent order with the NYSDEC under which the owner committed to complete a remedial investigation and feasibility study. In December 2001, the Company entered into an Interim Agreement with the owner of the property regarding the owner's claim for both contractual and statutory indemnification from the Company for certain environmental liabilities at the facility. The owner submitted its revised feasibility study to NYSDEC in September 2004. On November 30, 2004, NYSDEC issued a Proposed Remedial Action Plan (PRAP) for the Yonkers site. The PRAP accepted the remedy recommendation of the feasibility study, with certain modifications. On December 31, 2004, the Company and the Yonkers site owner finalized a settlement agreement that relieves the Company of financial responsibility for implementation of the NYSDEC's remedy at the Yonkers site. Pursuant to this settlement agreement, the Company agreed to pay a portion of the future anticipated remedial costs, as well as portions of the premiums associated with cost cap and pollution legal liability insurance associated with future site remedial actions. In addition, the Company resolved the site owner's claims of contractual and statutory indemnity for past remedial costs at the site. To address all aspects of the settlement agreement, the reserve was increased from approximately $20 million to $50 million during 2004. A partial payment of approximately $43 million was made on December 31, 2004; final payments of approximately $7 million were made in 2005.

Other

In 2005, the Company recognized net charges of $113.4 million for environmental remediation. As discussed above, the sites with significant charges were the Anniston Lead and PCB sites and Laurel Hill sediment site (an increase of $43.2 million). The remainder of environmental remediation charges was primarily at closed sites, none of which increased or decreased individually more than approximately $10 million.

At December 31, 2005, the cost range for reasonably possible outcomes for all reservable environmental remediation sites (including Pinal Creek's estimate of approximately $104 million to $211 million) was estimated from approximately $329 million to approximately $642 million, of which $367.9 million has been reserved. Significant work is expected to be completed in the next several years on the sites that constitute a majority of the reserve balance, subject to inherent delays involved in the remediation process.

Phelps Dodge believes certain insurance policies partially cover the foregoing environmental liabilities; however, some of the insurance carriers have denied coverage. We presently are negotiating with the carriers over some of these disputes. Further, Phelps Dodge believes it has other potential claims for recovery from other third parties, including the United States Government and other PRPs. Neither insurance recoveries nor other claims or offsets are recognized unless such offsets are considered probable of realization. In 2005 and 2004, the Company recognized proceeds from settlements reached with several insurance companies on historical environmental liability claims of $0.6 million and $9.3 million, net of fees and expenses, respectively.

Phelps Dodge has a number of sites that are not the subject of an environmental reserve because it is not probable that a successful claim will be made against the Company for those sites, but for which there is a reasonably possible likelihood of an environmental remediation liability. At December 31, 2005, the cost range for reasonably possible outcomes for all such sites, for which an estimate can be made, was estimated to be from approximately $2 million to approximately $14 million. The liabilities arising from potential environmental obligations that have not been reserved at this time may be material to the operating results of any single quarter or year in the future. Management, however, believes the liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company's liquidity or financial position as such obligations could be satisfied over a period of years.

The following table summarizes environmental reserve activities for the years ended December 31:

	2005	2004	2003
Balance, beginning of year	$303.6	$317.2	$305.9
Additions to reserves	116.0	63.6	54.6
Reductions in reserve estimates	(2.6)	(4.7)	(12.7)
Spending against reserves	(49.1)	(72.5)	(24.1)
Reclassification to asset retirement obligations*	—	—	(6.5)
Balance, end of year	$367.9	$303.6	$317.2

* Upon adoption of SFAS No. 143, reserves for certain matters ($6.5 million) required by reclamation rules or laws were reclassified to asset retirement obligations (previously classified as environmetal reserves).

1.90

QUANEX CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Critical Accounting Estimates

Environmental Contingencies

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. Unanticipated changes in circumstances and/or legal requirements could result in expenses being incurred in future periods in addition to an increase in actual cash required to remediate the contamination.

18 (In Part): Contingencies

Environmental

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations, financial condition or cash flows.

During the third quarter of 2005, the United States Department of Justice filed a complaint against the Company for recovery of cleanup costs incurred at the "Jepscor" Superfund site in Dixon, Illinois. The United States Environmental Protection Agency has indicated that it incurred approximately $2.6 million to remove processing residue and other materials from that former metal recovery plant. Of the Jepscor site's former owners, operators, and many customers, the government is asserting liability for cleanup only against the Company. During the fourth fiscal quarter of 2005, the Company and the Department of Justice reached a tentative agreement to settle this matter. If that settlement cannot be finalized, the Company intends to defend itself vigorously against the government's Jepscor allegations.

Total remediation reserves, at October 31, 2005, for Quanex's current plants, former operating locations, and disposal facilities were approximately $8.9 million, which is within $0.3 million of the reserve at October 31, 2004. Of the current remediation reserve, approximately $2.0 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. On the balance sheet, $6.7 million of the remediation reserve is included in non-current liabilities with the remainder in accrued liabilities (current).

Approximately 51% of the total remediation reserve is currently allocated to cleanup work related to Piper Impact. During the first quarter of 2005, the Company sold the operating assets of the Piper Impact business, including its only active plant on Barkley Drive in New Albany, Mississippi. In the fourth fiscal quarter of 2005, the Company sold the location on Highway 15 in New Albany where Piper Impact previously had operated a plant (the Highway 15 location), but as part of the sale retained environmental liability for pre-closing contamination there. At present, the largest component of the Piper Impact remediation reserve is for remediation of soil and groundwater contamination from prior operators of the Highway 15 location in New Albany. The Company voluntarily implemented a state-approved remedial action plan there that includes natural attenuation together with a groundwater collection and treatment system. The Company continues to monitor conditions at the site and to evaluate performance of that remedy.

Included in the current reserve is the estimated cost of operating the existing groundwater remediation system at the Highway 15 location over the next 20 years, which was discounted to a net present value using an interest rate of 3.0%. The Company has estimated the annual cost of operating the existing system to be approximately $0.2 million and has assumed that the existing system will continue to be effective.

The final remediation costs and the timing of the expenditures at the Highway 15 location and other sites will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences. While actual remediation costs therefore may be more or less than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals because of uncertainties as to the extent of environmental impact, cleanup technologies, and concurrence of governmental authorities. The Company currently expects to pay the accrued remediation reserve through at least fiscal 2025, although some of the same factors discussed earlier could accelerate or extend the timing.

Insurance Coverage/Self-Insurance

1.91

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Self-Insurance Reserves and Recoveries

We have retained a portion of the risks related to our automobile, general liability and workers' compensation insurance programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, generally is estimated with the assistance of external actuaries and by factoring in pending claims and historical trends and data. The gross estimated liability associated with settling unpaid claims is included in "Accrued liabilities" if expected to be settled within one year, or otherwise is included in long-term "Other liabilities." Estimated insurance recoveries related to recorded liabilities are reflected as current "Other receivables" or long-term "Other assets," when we believe that the receipt of such amounts is probable.

Contingent Liabilities

We estimate the amount of potential exposure we may have with respect to claims, assessments and litigation in accordance with SFAS No. 5. We are party to pending or threatened legal proceedings covering a wide range of matters in various jurisdictions. It is not always possible to predict the outcome of litigation, as it is subject to many uncertainties. Additionally, it is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation.

10 (In Part): Commitments and Contingencies

Insurance

We carry insurance coverage for protection of our assets and operations from certain risks including automobile liability, general liability, real and personal property, workers' compensation, directors' and officers' liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Our exposure, however, could increase if our insurers were unable to meet their commitments on a timely basis.

We have retained a portion of the risks related to our automobile, general liability and workers' compensation insurance programs. For our self-insured retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The estimated accruals for these liabilities could be affected if future occurrences or loss development significantly differ from utilized assumptions. As of December 31, 2005, our insurance programs carried self-insurance exposures of up to $2.5 million, $1 million and $20,000 per incident with regards to general liability, workers' compensation and auto, respectively. Effective January 1, 2006, we increased the per incident deductible for our auto insurance programs to $1 million. Self-insurance claims reserves acquired as part of our acquisition of WM Holdings in July 1998 were discounted at 4.25% at December 31, 2005 and 2004. The changes to our net insurance liabilities for the years ended December 31, 2004 and 2005 are summarized below (in millions):

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance, December 31, 2003	$ 644	$(293)	$ 351
Self-insurance expense incurred	266	(82)	184
Payments made to fund self-insurance related liabilities	(229)	60	(169)
Balance, December 31, 2004	681	(315)	366
Self-insurance expense incurred	227	(46)	181
Payments made to fund self-insurance related liabilities	(248)	67	(181)
Balance, December 31, 2005	$ 660	$(294)	$ 366
Current portion at December 31, 2005	$ 232	$(137)	$ 95
Long-term portion at December 31, 2005	$ 428	$(157)	$ 271

For the 14 months ended January 1, 2000, we insured certain risks, including auto, general liability and workers' compensation, with Reliance National Insurance Company, whose parent filed for bankruptcy in June 2001. In October 2001, the parent and certain of its subsidiaries, including Reliance National Insurance Company, were placed in liquidation. We believe that because of various state insurance guarantee funds and probable recoveries from the liquidation, currently estimated to be $19 million, it is unlikely that events relating to Reliance will have a material adverse impact on our financial statements.

We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

Possible Tax Assessments

1.92

INTEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Provision for Taxes

During 2004, in connection with preparing and filing its 2003 federal tax return and preparing its state tax returns, the company reduced its 2004 tax provision by $195 million. This reduction in the 2004 tax provision was primarily driven by tax benefits for export sales and state tax benefits for divestitures that exceeded the amounts originally estimated in connection with the 2003 provision. Also during 2004, the company reversed previously accrued taxes related primarily to the closing of a state income tax audit that reduced the tax provision for 2004 by $62 million.

The company reduced its tax provision for 2003 by approximately $758 million due to the tax benefits related to the sale of certain businesses and assets through the sale of stock of acquired companies.

The U.S. Internal Revenue Service (IRS) formally assessed certain adjustments to the amounts reflected by the company in its tax returns for the years 1999 through 2002. See "Note 18: Contingencies" for a discussion of these matters.

Note 18 (In Part): Contingencies

Tax Matters

In connection with the IRS's regular examination of Intel's tax returns for the years 1999 and 2000, the IRS formally assessed in early 2005 certain adjustments to the amounts reflected by Intel on those returns as a tax benefit for its export sales. Also in 2005, the IRS formally assessed similar adjustments to the amounts reflected by Intel for the years 2001 and 2002 as a tax benefit for export sales. The company does not agree with these adjustments and has appealed the assessments. If the IRS prevails in its position, Intel's federal income tax due for 1999 through 2002 would increase by approximately $1.0 billion, plus interest. The IRS may make similar claims for years subsequent to 2002 in future audits, and if the IRS prevails, income tax due for 2003 through 2005 would increase by approximately $1.2 billion, plus interest.

Although the final resolution of the adjustments is uncertain, based on currently available information, management believes that the ultimate outcome will not have a material adverse effect on the company's financial position, cash flows or overall trends in results of operations. There is the possibility of a material adverse impact on the results of operations of the period in which the matter is ultimately resolved, if it is resolved unfavorably, or in the period in which an unfavorable outcome becomes probable and reasonably estimable.

1.93

W. R. GRACE & CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingent Liabilities

Tax Matters

On May 19, 2005, Grace received a revised examination report (the "1993–1996 Examination Report") from the Internal Revenue Service (the "IRS") for the 1993–1996 tax periods asserting, in the aggregate, approximately $77.3 million of proposed tax adjustments, plus accrued interest. The most significant issue addressed in the 1993–1996 Examination Report concerns corporate-owned life insurance ("COLI") policies, as discussed below. Grace reached an agreement with the IRS with respect to all proposed tax adjustments in the Examination Report with the exception of approximately $7.0 million of proposed adjustments relating to research and development credits. On April 14, 2005, Grace made a $90 million payment to the IRS with respect to federal taxes and accrued interest for the 1993–1996 tax periods, consistent with the revised Examination Report. On June 17, 2005, Grace filed its protest with respect to the R&D matter with the IRS Office of Appeals and on December 7, 2005 Grace received an acknowledgment from that office that the matter is under consideration at IRS Appeals.

With respect to COLI, in 1988 and 1990, Grace acquired COLI policies and funded policy premiums in part using loans secured against policy cash surrender value. Grace claimed a total of approximately $258 million in deductions attributable to interest accrued on such loans through the 1998 tax year, after which such deductions were no longer permitted by law. On January 20, 2005, Grace terminated the COLI policies and Grace, Fresenius, Sealed Air and the IRS entered into a COLI Closing Agreement. Under the COLI Closing Agreement, the government allowed 20% of the aggregate amount of the COLI interest deductions and Grace owed federal income tax and interest with respect to the remaining 80% of the COLI interest deductions disallowed. The federal tax liability resulting from the COLI settlement is approximately $57.5 million, $10.4 million of which was paid in 2000 in connection with the 1990–1992 tax audit, and $30.8 million of which was paid in the April 14, 2005 payment in connection with the 1993–1996 federal tax audit discussed above. The remaining approximately $16.3 million of additional tax liability will be satisfied in connection with the 1997 and 1998 federal tax audits, which are still under examination by the IRS. The COLI Closing Agreement also provides that, with respect to the termination of the COLI policies, Grace will include 20% of the gain realized in taxable income, with the government exempting 80% of such gain from tax. As a result of the termination, Grace received $14.8 million in cash proceeds and will report income for tax purposes of approximately $60 million in 2005. It is anticipated that Grace will apply its net operating loss carryforwards to offset the taxable income generated from terminating the COLI policies, although alternative minimum taxes may apply.

As a consequence of having finally determined federal tax adjustments for the 1990–1996 tax periods, Grace became liable for additional state taxes plus interest accrued thereon. Grace's estimate for state taxes and interest to be paid for these years is approximately $18.3 million, of which it has already paid approximately $6.3 million. The remainder is expected to be paid in accordance with Grace's bankruptcy proceedings.

Grace's federal tax returns covering 1997 and later years are either under examination by the IRS or open for future examination. In connection with the years 1997–2001 that are currently under examination, Grace reached agreement with the IRS on a number of issues. After taking all issues into consideration, Grace reduced its recorded liabilities in 2005 by $13.5 million. Grace believes that the remaining recorded tax liability is adequate to cover the impact of probable tax return adjustments at December 31, 2005.

The IRS has assessed additional federal income tax withholding and Federal Insurance Contributions Act taxes plus interest and related penalties for calendar years 1993 through 1998 against a Grace subsidiary that formerly operated a temporary staffing business for nurses and other health care personnel. The assessments, aggregating $61.9 million, were made in connection with a meal and incidental expense per diem plan for traveling health care personnel, which was in effect through 1999, the year in which Grace sold the business. (The statute of limitations has expired with respect to 1999.) The IRS contends that certain per diem reimbursements should have been treated as wages subject to employment taxes and federal income tax withholding. Grace contends that its per diem and expense allowance plans were in accordance with statutory and regulatory requirements, as well as other published guidance from the IRS. Grace has a right to indemnification from its former partner in the business for approximately 36% of any tax liability (including interest thereon) for the period from July 1996 through December 1998. The matter is currently pending in the United States Court of Claims. Grace has tentatively agreed with the Department of Justice and IRS on a settlement amount and certain other terms that would resolve the matter. The preliminary settlement is subject to the execution of written closing agreements with the IRS and a written settlement agreement with the Department of Justice, and to Bankruptcy Court approval.

Governmental Investigations

1.94

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Commitments and Contingent Liabilities

Government

We are the subject of one or more investigations and legal proceedings initiated by the U.S. government with respect to government contract matters. We believe that in light of the current U.S. government contracting environment we will be the subject of one or more U.S. government investigations. If we or one of our business units were charged with wrongdoing as a result of any of these investigations or other government investigations (including violations of certain environmental or export laws) we could be suspended from bidding on or receiving awards of new U.S. government contracts pending the completion of legal proceedings. If convicted or found liable, we could be fined and debarred from new U.S. government contracting for a period generally not to exceed three years. Any contracts found to be tainted by fraud could be voided by the U.S. government.

Our contracts with the U.S. government are also subject to audits. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports have involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate and continue to litigate certain cases. In addition, we accrue for liabilities associated with those matters that are probable and can be reasonably estimated.

As previously disclosed, we received a demand notice in 2003 for $755 million from the U.S. Department of Defense (DoD) relating to an ongoing dispute over Pratt& Whitney's government cost accounting practices for engine parts received from its partners on certain commercial engine collaboration programs from 1984 to the present. In 2001, the U.S. Armed Services Board of Contract Appeals (ASBCA) ruled that Pratt & Whitney's accounting for these parts was in compliance with U.S. Government Cost Accounting Standards (CAS). The DoD appealed the ruling to the Court of Appeals for the Federal Circuit and in January 2003, the Court reversed the ASBCA's decision and remanded the case back to the ASBCA. The case is currently pending before the ASBCA.

In addition, and as previously disclosed, the U.S. Department of Justice (DoJ) sued us in 1999 under the civil False Claims Act and other theories related to the "Fighter Engine Competition" between Pratt& Whitney's F100 engine and GE's F110 engine. The DoJ alleges that the Government overpaid for engines because Pratt& Whitney inflated certain costs and withheld data. The Government claims damages of $624 million. We believe this estimate is substantially overstated, deny any liability and are vigorously defending the matter. Trial of this matter was completed in December 2004 and a decision is expected in 2006.

Should the U.S. government ultimately prevail with respect to either of the foregoing government contracting matters, the outcome could result in a material effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. However, we believe that the resolution of these matters will not have a material adverse effect on our results of operations, competitive position, cash flows or financial condition.

As previously reported, the European Commission's Directorate (the "EU Commission") conducted inspections in early 2004 at offices of our Otis subsidiary in Berlin, Brussels, Luxembourg and Paris relating to an investigation of possible unlawful collusive arrangements involving the European elevator and escalator industry. Based on the result of our own internal investigation, we believe that some of Otis' employees engaged in activities at a local level in Belgium, Luxembourg, the Netherlands and Germany in violation of Otis and UTC policies and European competition law. On October 13, 2005, we received a Statement of Objections from the EU Commission relating to this investigation. The Statement of Objections, an administrative complaint, alleges infringements of EU competition rules by certain elevator companies, including Otis, in Belgium, Luxembourg, the Netherlands and Germany. We are carefully reviewing the Statement of Objections and will respond timely to the EU Commission. As we have from the start, we continue to cooperate fully with the EU Commission. As previously disclosed, we believe it is still too early in the EU Commission's investigation for us to reasonably estimate the range of civil fines to which we or Otis would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to our operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. We do not believe that any such fines would have a material adverse effect on our financial condition, or that the resolution of this matter would have a material adverse effect on Otis' competitive position.

Multiemployer Benefit Plan

1.95

ARKANSAS BEST CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Employee Benefit Plans

Multiemployer Plans (In Part)

Retirement and health care benefits for ABF's contractual employees are provided by a number of multi-employer plans, under the provisions of the Taft-Hartley Act. The trust funds are administered by trustees, who generally are appointed equally by the IBT and certain management carrier organizations. ABF is not directly involved in the administration of the trust funds. ABF contributes to these plans monthly based on the hours worked by its contractual employees, as specified in the National Master Freight Agreement and other supporting supplemental agreements. No amounts are required to be paid beyond ABF's monthly contractual obligations based on the hours worked by its employees, except as discussed below.

ABF has contingent liabilities for its share of the unfunded liabilities of each plan to which it contributes. ABF's contingent liability for a plan would be triggered if it were to withdraw from that plan. ABF has no current intention of withdrawing from any of the plans. Previously, information regarding the funded status of the various plans and an estimate of ABF's contingent withdrawal liabilities were not accessible. Now, because of improved disclosure and cooperation from the multiemployer plans, more of this information is available. As a result, ABF has gathered data from the majority of these plans and currently estimates its total contingent withdrawal liabilities for these plans to be approximately $500 million, on a pre-tax basis. Though the best information available to ABF was used in computing this estimate, it is calculated with numerous assumptions, is not current and is continually changing. If ABF did incur withdrawal liabilities, those amounts would generally be payable over a period of 10 to 15 years.

Aside from the withdrawal liabilities, ABF would only have an obligation to pay an amount beyond its contractual obligations if it received official notification of a funding deficiency. ABF has not received notification of a funding deficiency and has no expectation of receiving notification of a funding deficiency for any of the plans to which it contributes. The amount of any potential funding deficiency, if it were to materialize in the future, should be substantially less than the full withdrawal liability for each plan.

There are several factors that can provide a positive impact on the funding status of these plans. These factors include: reductions in member benefits, an increase in the contractual contributions by the participating employers or improved investment returns on plan assets. Any combination of these items has the potential for positively affecting the funding status. In addition, the Central States Southeast and Southwest Area Pension Fund ("Central States"), to which ABF makes approximately 50% of its contributions, recently received a ten-year extension from the IRS of the period over which it amortizes unfunded liabilities. For the foreseeable future, this extension should help the Central States fund avoid a funding deficiency. Multiemployer plan funding issues, including mandatory information disclosure, are currently being addressed in proposed pension plan legislation in both houses of the United States Congress.

GAIN CONTINGENCIES

Plaintiff Litigation

1.96

THE MANITOWOC COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Contingencies and Significant Estimates

The company has been in negotiations with one of its Marine customers to recover certain cost overruns that resulted from change orders related to a particular contract. During the third quarter of 2005, due to the fact that these negotiations were not successful within a timeframe satisfactory to the company, we filed a lawsuit seeking recovery of these cost overruns from the customer. The customer subsequently filed a counter suit against the company in the fourth quarter of 2005. During the fourth quarter of 2005, the company established a reserve of $10.2 million to reflect the inherent uncertainties in litigation of this type. The $10.2 million reserve is recorded in cost of sales of the Marine segment in the Consolidated Statements of Operations for the year ended December 31, 2005. Although the company has established this reserve, it believes it is contractually entitled to these cost recoveries and it intends to continue to seek recovery of all amounts owed. If the company is successful in our recovery of costs as a result of this lawsuit or negotiations, the favorable impact on our Consolidated Statements of Operations and Cash Flows in a future period could be material.

1.97

UTSTARCOM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Commitments and Contingencies

Starent Patent Infringement Litigation

The Company has sued Starent Networks Corporation ("Starent") for patent infringement in the U.S. District Court for the Northern District of California. On March 22, 2004, the Company filed its Complaint. On June 3, 2004, the Company served its Complaint on Starent. On July 30, 2004, Starent filed and served its answer and counterclaims. On August 30, 2004, the Company served and filed its Amended Complaint. In the Company's Amended Complaint, the Company asserts that Starent infringes a UTStarcom patent through the manufacture, use, offer for sale, and sale of Starent's ST-16 Intelligent Mobile Gateway. We seek, inter alia, compensatory damages and injunctive relief. Starent filed its answer to the Amended Complaint and counterclaims on September 17, 2004. In its answer and counterclaims, Starent denies the Company's allegations and seeks a declaration that the patent-in-suit is not infringed, is invalid, and is unenforceable. The Court held an initial case management conference on November 2, 2004. On February 17, 2005, the Company filed a motion for a preliminary injunction against Starent's use, sale, and offer for sale of products having the infringing feature. The Court held a hearing on the Company's motion on May 11, 2005 and denied the Company's motion on June 17, 2005. On June 30, 2005, the Court held a hearing on the proper meaning or construction of the claims of the patent-in-suit and entered an order construing these claims on August 11, 2005. On September 20, 2005, Starent filed a motion for summary judgment of non-infringement and UTStarcom filed a motion for summary judgment that Starent is estopped from asserting invalidity and unenforceability. On October 4, 2005, Starent filed a motion to strike UTStarcom's final infringement contentions. On November 7, 2005, Starent's motion to strike was denied. Oral argument on UTStarcom's estoppel motion and Starent's non-infringement motion was held on November 8, 2005. On December 6, 2005, the Court granted Starent's motion for summary judgment of non-infringement. On December 12, 2005, the Court dismissed as moot Starent's counterclaims for declaratory relief based on invalidity or unenforceability of the asserted patent. On February 2, 2006, the Court entered judgment in favor of Starent. On March 2, 2006, UTStarcom filed a notice of appeal. The Company has indicated that it believes that this adverse judgment will not have a material adverse effect on the business, financial condition, or results of the Company's operations.

On February 16, 2005, the Company filed a second suit against Starent for patent infringement in the U.S. District Court for the Northern District of California. On May 6, 2005, the Company served the Complaint on Starent. In the Complaint, the Company asserts that Starent infringes a UTStarcom patent through Starent's development and testing of a software upgrade for its customer's installed ST-16 Intelligent Mobile Gateways. The Company seeks, inter alia, declaratory and injunctive relief.

Starent filed its answer and counterclaims on May 31, 2005, denying the Company's allegations and seeking a declaration that the patent-in-suit is not infringed, is invalid, and is unenforceable. On June 16, 2005, the Company filed a motion to strike Starent's affirmative defense and dismiss Starent's counterclaim alleging inequitable conduct. Pursuant to the parties' stipulation, the Company withdrew its motion to strike and, on July 27, 2005, Starent filed an amended answer and counterclaims, which pleaded its inequitable conduct allegations with more specificity. UTStarcom filed its answer to the amended counterclaims on August 10, 2005. The Company has indicated that it believes that any adverse judgment on Starent's counterclaims will not have a material adverse effect on the business, financial condition, or results of the Company's operations. However, we have not made an evaluation of the possibility of a favorable or unfavorable outcome.

Contingent Receivables

1.98

VULCAN MATERIALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Discontinued Operations, Assets Held for Sale and Liabilities of Assets Held for Sale

In June 2005, we sold substantially all the assets of our Chemicals business, known as Vulcan Chemicals, to a subsidiary of Occidental Chemical Corporation, Basic Chemicals. These assets consisted primarily of chloralkali facilities in Wichita, Kansas, Geismar, Louisiana and Port Edwards, Wisconsin; and the facilities of our Chloralkali joint venture located in Geismar. The decision to sell the Chemicals business was based on our desire to focus our resources on the Construction Materials business.

In consideration for the sale of the Chemicals business, Basic Chemicals made an initial cash payment of $214.0 million and assumed certain liabilities relating to the business as described below. Concurrent with the sale transaction, we acquired the 49% interest in the joint venture not owned by us for an initial cash payment of $62.7 million, and conveyed such interest to Basic Chemicals. The net initial cash proceeds of $151.3 million are subject to adjustments for actual working capital balances at the closing date, transaction costs and income taxes. The purchaser also assumed certain liabilities relating to the Chemicals business, including the obligation to monitor and remediate historical and future releases of hazardous materials at or from the three plant facilities.

Basic Chemicals is required to make future payments under two separate earn-out agreements subject to certain conditions. The first earn-out agreement is based on ECU and natural gas prices during the five-year period beginning July 1, 2005, and is capped at $150 million (ECU earn-out or ECU derivative). The ECU earn-out is accounted for as a derivative instrument; accordingly, it is reported at fair value. Changes to the fair value of the ECU derivative, if any, are recorded within continuing operations pursuant to SAB Topic 5:Z:5. Future estimates of this derivative's fair value could vary materially from period to period. Proceeds under the second earn-out agreement will be determined based on the performance of the hydrochlorocarbon product HCC-240fa (commonly referred to as 5CP) from the closing of the transaction through December 31, 2012. Under this earn-out agreement, cash plant margin for 5CP, as defined in the Asset Purchase Agreement, in excess of an annual threshold amount will be shared equally between Vulcan and Basic Chemicals. The primary determinant of the value for this earn-out will be growth in 5CP sales volume. There can be no assurance as to the future amount received from the earn-outs, if any.

The fair value of the consideration received in connection with the sale of the Chemicals business, including anticipated cash flows from the two earn-out agreements, is expected to exceed the net carrying value of the assets and liabilities sold. However, since SFAS No. 5, "Accounting for Contingencies," precludes the recognition of a contingent gain until realization is assured beyond a reasonable doubt, no gain was recognized on the Chemicals sale. Accordingly, the value recorded at the June 7, 2005 closing date referable to these two earn-outs was limited to $128.2 million. The combined carrying amount of these earn-outs (reflected in accounts and notes receivable—other and noncurrent other assets in the accompanying Consolidated Balance Sheets) as of December 31, 2005 was $148.4 million, of which $105.7 million is classified as current. The increase from the June 2005 closing is primarily due to a $20.4 million gain on the ECU earn-out, which is included as a component of other income, net of other charges, in our Consolidated Statements of Earnings for the year ended December 31, 2005.

RISKS AND UNCERTAINTIES

1.99 Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA), requires reporting entities to disclose information about the nature of their operations, the use of estimates in preparing financial statements, certain significant estimates, and vulnerabilities due to certain concentrations.

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

Nature of Operations

1.101

JOY GLOBAL INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Description of Business

Joy Global Inc. is the world's leading manufacturer and servicer of high productivity mining equipment for the extraction of coal and other minerals and ores. Our equipment is used in major mining regions throughout the world to mine coal, copper, iron ore, oil sands and other minerals. We operate in two business segments: underground mining machinery (Joy Mining Machinery or "Joy") and surface mining equipment (P&H Mining Equipment or "P&H"). Joy is a major manufacturer of underground mining equipment for the extraction of coal and other bedded minerals and offers comprehensive service locations near major mining regions worldwide. P&H is a major producer of surface mining equipment for the extraction of ores and minerals and provides extensive operational support for many types of equipment used in surface mining.

1.102

LSI LOGIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Nature of the Business

LSI Logic Corporation ("the Company" or "LSI") designs, develops, and markets complex, high-performance semiconductors and storage systems. In 2005, our operations were organized in four markets: communications, consumer products, storage components and storage systems. On March 6, 2006, we announced plans to focus our business on growth opportunities in the storage and consumer markets.

The Company offers integrated circuit products, board-level products, and software for use in consumer applications, high-performance storage controllers, enterprise hard disk controllers, and systems for storage area networks. The Company's integrated circuits are also used in a wide range of communication devices.

The Company operates in two Reportable segments—the Semiconductor segment and the Storage Systems segment—in which the Company offers products and services for a variety of electronic systems applications. LSI's products are marketed primarily to original equipment manufacturers ("OEMs") that sell products to the Company's target markets. The information provided herein has been recast to include the RAID Storage Adapter ("RSA") business as part of the Storage Systems segment from the Semiconductor segment for all periods presented.

The semiconductor and storage systems industries are characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. The Company's financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor and storage systems industries, the timely implementation of new technologies and the ability to safeguard patents and intellectual property in a rapidly evolving market. In addition, the semiconductor and storage systems markets have historically been cyclical and subject to significant economic downturns at various times.

1.103

LYONDELL CHEMICAL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and Operations

Lyondell Chemical Company, together with its consolidated subsidiaries (collectively, "Lyondell" or "the Company"), is a global chemical company that manufactures and markets a variety of basic chemicals and gasoline blending components. As a result of Lyondell's acquisition of Millennium Chemicals Inc. (together with its consolidated subsidiaries, "Millennium") and Lyondell's resulting 100% ownership of

Millennium and Equistar Chemicals, LP (together with its consolidated subsidiaries, "Equistar"), the operations of Millennium and Equistar are consolidated prospectively from December 1, 2004.

The ethylene, co-products and derivatives ("EC&D") segment includes: ethylene; co-products, such as propylene, butadiene and aromatics; and ethylene derivatives, including the ethylene oxide, ethylene glycol and polyethylene businesses of Equistar; and the Millennium acetyls business, including vinyl acetate monomer ("VAM"), acetic acid and methanol.

Through November 30, 2004, Lyondell's EC&D operations, excluding acetyls, were conducted through its 70.5% ownership interest in Equistar, which was accounted for using the equity method. After November 30, 2004, Equistar became a wholly owned subsidiary of Lyondell.

The propylene oxide and related products ("PO&RP") segment includes: propylene oxide ("PO"); its co-products, styrene monomer ("SM" or "styrene"), and tertiary butyl alcohol ("TBA"), together with its derivatives, methyl tertiary butyl ether ("MTBE") and ethyl tertiary butyl ether ("ETBE"); PO derivatives, including propylene glycol ("PG"), propylene glycol ethers ("PGE") and butanediol ("BDO"); and toluene diisocyanate ("TDI").

The inorganic chemicals segment includes Millennium's titanium dioxide ("TiO_2") and related products business.

Lyondell's refining segment operations are conducted through its joint venture ownership interest in LYONDELL-CITGO Refining LP ("LCR"). Lyondell accounts for its investment in LCR using the equity method. LCR produces refined petroleum products, including gasoline, low sulfur diesel, jet fuel, aromatics and lubricants.

Use of Estimates

1.104

W. W. GRAINGER, INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Background and Basis of Presentation

Management Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and revenues and expenses. Actual results could differ from those estimates.

1.105

XEROX CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

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

Use of Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States of America, requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in leases and other multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) allowance for doubtful accounts; (v) inventory valuation; (vi) restructuring and related charges; (vii) asset impairments; (viii) depreciable lives of assets; (ix) useful lives of intangible assets; (x) pension and post-retirement benefit plans; (xi) income tax reserves and valuation allowances and (xii) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes certain significant charges that require management estimates:

(In millions)	2005	2004	2003
Restructuring provisions and asset impairments	$ 366	$ 86	$ 176
Amortization of intangible assets	42	38	36
Provisions for receivables	51	86	224
Provisions for obsolete and excess inventory	56	73	78
Provisions for litigation and regulatory matters	115	9	242
Depreciation and obsolescence of equipment on operating leases	205	210	271
Depreciation of buildings and equipment	280	305	299
Amortization of capitalized software	114	134	143
Pension benefits—net periodic benefit cost	343	350	364
Other post-retirement benefits—net periodic benefit cost	117	111	108
Deferred tax asset valuation allowance provisions	(38)	12	(16)

Changes in Estimates

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

Significant Estimates

1.106

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All dollar amounts in millions)

2) Use of Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

Listed below are certain significant estimates and assumptions used in the preparation of our consolidated financial statements. Certain other estimates and assumptions are further explained in the related Notes.

Allowance for Doubtful Accounts

We estimate losses for uncollectible accounts based on our historical experience and the evaluation of the likelihood of success in collecting specific customer receivables. Summarized below is the activity for the allowance for doubtful accounts.

	2005	2004	2003
Allowance for doubtful accounts:			
Balance at beginning of year	$ 36.1	$ 26.7	$ 22.1
Acquisitions/divestitures, net	0.8	7.0	2.2
Provisions	26.3	20.5	14.0
Write-offs, net of recoveries	(19.9)	(18.1)	(11.6)
Balance at end of year	$ 43.3	$ 36.1	$ 26.7

Inventory

We estimate losses for excess and/or obsolete inventory and the net realizable value of inventory based on the aging of the inventory and the evaluation of the likelihood of recovering the inventory costs based on anticipated demand and selling price.

Impairment of Long-Lived Assets and Intangibles Subject to Amortization

We continually review whether events and circumstances subsequent to the acquisition of any long-lived assets, or intangible assets subject to amortization, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, we use projections to assess whether future cash flows on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets to determine if a write-down is appropriate. If we identify impairment, we will report a loss to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar projections on a discounted basis.

In determining the estimated useful lives of definite lived intangibles, we consider the nature, competitive position, life cycle position, and historical and expected future operating cash flows of each acquired asset, as well as our commitment to support these assets through continued investment and legal infringement protection.

Goodwill and Indefinite-Lived Intangible Assets

We test goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter and continually review whether a triggering event has occurred to determine whether the carrying value exceeds the implied value. The fair value of reporting units is based generally on discounted projected cash flows, but we also consider factors such as comparable industry price multiples. We employ cash flow projections that we believe to be reasonable under current and forecasted circumstances, the results of which form the basis for making judgments about the carrying values of the reported net assets of our reporting units. Many of our businesses closely follow changes in the industries and end-markets that they serve. Accordingly, we consider estimates and judgments that affect the future cash flow projections, including principal methods of competition, such as volume, price, service, product performance, and technical innovations, as well as estimates associated with cost improvement initiatives, capacity utilization, and assumptions for inflation and foreign currency changes. Actual results may differ from these estimates under different assumptions or conditions. See Note 8 for more information, including discussion of impairment charges recorded in 2005 for our Air Filtration and Dock Products businesses and in 2004 for our Dock Products, Fluid Power, Radiodetection, and TPS businesses.

Accrued Expenses

We make estimates and judgments in establishing accruals as required under generally accepted accounting principles. Summarized in the table below are current accrued expenses at December 31, 2005 and 2004.

	2005	2004
Employee benefits	$181.6	$225.5
Warranty	52.3	58.0
Other[1]	449.3	384.3
	$683.2	$667.8

[1] Other consists of various items, including legal, interest, and dividends payable, none of which individually require separate disclosure.

Legal

It is our policy to accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the losses or expenses probable and they can be reasonably estimated. We do not discount legal obligations or reduce them by anticipated insurance recoveries.

Environmental Remediation Costs

We expense costs incurred to investigate and remediate environmental issues unless they extend the economic useful life of related assets. We record liabilities and report expenses when it is probable that an obligation has been incurred and the amounts can be reasonably estimated. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are based primarily on investigations and remediation plans established by independent consultants, regulatory agencies and potentially responsible third parties. We do not discount environmental obligations or reduce them by anticipated insurance recoveries.

Self-Insurance

We are primarily self-insured for workers' compensation, automobile, product, general liability and health costs, and we believe that we maintain adequate accruals to cover our retained liability. Our accruals for self-insurance liabilities are determined by management, are based on claims filed and an estimate of claims incurred but not yet reported, and are not discounted. Management considers a number of factors, including third-party actuary valuations, when making these determinations. We maintain third-party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts.

Warranty

In the normal course of business, we issue product warranties for specific product lines and provide for the estimated future warranty cost in the period in which the sale is recorded. We provide for the estimate of warranty cost based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided. In addition, due to the seasonal fluctuations at certain of our businesses, the timing of warranty provisions and the usage of warranty accruals can vary period to period. We make adjustments to initial obligations for warranties as changes in the obligations become reasonably estimable. The following is an analysis of our product warranty accrual for the periods presented:

	2005	2004	2003
Balance at beginning of year	$ 58.0	$ 65.8	$ 49.7
Acquisitions/divestitures, net	0.3	0.8	15.4
Provisions	22.0	13.8	25.4
Usage	(28.0)	(22.4)	(24.7)
Balance at end of year	$ 52.3	$ 58.0	$ 65.8

Income Taxes

We perform reviews of our income tax positions on a continuous basis and accrue for potential contingencies when we believe a liability is probable and can be reasonably estimated. Accruals for these contingencies are recorded in "income taxes payable" and "deferred and other income taxes" in the accompanying consolidated balance sheets based on an expectation as to the timing of when the contingency will be resolved. As events change or resolution occurs, these accruals are adjusted, such as in the case of audit settlements with taxing authorities. Any potential liabilities in excess of amounts recorded are not material. These reviews also entail analyzing the realization of deferred tax assets associated with net operating loss and credit carryforwards. When we believe that it is more likely than not that a net operating loss or credit carryforward may expire unused, we establish a valuation allowance against them.

Employee Benefit Plans

We have defined benefit plans that cover a significant portion of our salaried and hourly paid employees, including certain employees in foreign countries. We derive pension expense from an actuarial calculation based on the defined benefit plans' provisions and management's assumptions regarding discount rate, rate of increase in compensation levels and expected long-term rate of return on assets. Management determines the expected long-term rate of return on plan assets based upon historical actual asset returns and the expectations of asset returns over the expected period to fund participant benefits based on the current investment mix of our plans. Management sets the discount rate based on the yield of high quality fixed income investments, commonly defined as fixed income investments with at least a Moody's Aa credit rating. The rate of increase in compensation levels is established based on management's expectations of current and foreseeable future increases in compensation. Management also consults with independent actuaries in determining these assumptions.

1.107

YUM! BRANDS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

21 (In Part): Guarantees, Commitments and Contingencies

Insurance Programs

We are self-insured for a substantial portion of our current and prior years' coverage including workers' compensation, employment practices liability, general liability, automobile liability and property losses (collectively, "property and casualty losses"). To mitigate the cost of our exposures for certain property and casualty losses, we make annual decisions to self-insure the risks of loss up to defined maximum per occurrence retentions on a line by line basis or to combine certain lines of coverage into one loss pool with a single self-insured aggregate retention. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence or aggregate retention. The insurers' maximum aggregate loss limits are significantly above our actuarially determined probable losses; therefore, we believe the likelihood of losses exceeding the insurers' maximum aggregate loss limits is remote.

In the U.S. and in certain other countries, we are also self-insured for healthcare claims and long-term disability for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses, healthcare and long-term disability claims, including reported and incurred but not reported claims, based on information provided by independent actuaries.

Due to the inherent volatility of actuarially determined property and casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in quarterly and annual net income. We believe that we have recorded reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

Vulnerability Due to Certain Concentrations

1.108

ANALOGIC CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Risks and Uncertainties

The Company is subject to risks common to companies in the medical and security technology industries. These risks, which could have a material and negative impact on the Company's business, financial condition, and results of operations, include, but are not limited to, loss of any significant customer, dependence on key suppliers, and United States and foreign regulatory clearances and approvals.

Customers

The Company depends on a small number of customers for a large portion of its business, and changes in its customers' orders may have a significant impact on its operating results. If a major customer significantly reduces the amount of business it does with the Company, there would be an adverse impact on the Company's operating results. The following table sets forth the percentages of the Company's net product and engineering revenue from its five largest customers in each of the last three fiscal years and the percentage of our product and engineering sales to our ten largest customers during these periods:

	2005	2004	2003
L-3 Communications	14%	8%	43%
Toshiba	14%	12%	7%
General Electric	10%	10%	9%
Siemens	8%	9%	6%
Philips	6%	7%	4%
Ten largest customers as a group	61%	61%	77%

The Company will continue to depend on sales to a relatively small number of major customers. Because it often takes significant time to replace lost business, it is likely that operating results would be adversely affected if one or more major customers were to cancel, delay, or reduce significant orders in the future. Customer agreements typically permit the customer to discontinue future purchases after timely notice.

In addition, the Company generates significant accounts receivable in connection with the products it sells and the services it provides to its major customers. Although its major customers are large corporations, if one or more of its customers were to become insolvent or otherwise be unable to pay for the Company's products and services, the Company's operating results and financial condition could be adversely affected.

Suppliers of Raw Materials and Components

In general, the Company's products are composed of Company-designed proprietary integrated circuits, printed circuit boards, and precision resistor networks manufactured by it and others in accordance with its specifications, as well as standard electronic integrated circuits, transistors, displays, and other components. The Company orders raw materials and components to complete customers' orders, and some of these raw materials and components are ordered from sole-source suppliers and may have long-lead times for delivery.

Although the Company works with its customers and suppliers to minimize the impact of shortages in raw materials and components, it sometimes experiences short-term adverse effects due to price fluctuations and delayed shipments. The failure of a supplier to deliver on schedule could delay or interrupt the Company's delivery of products and thereby adversely affecting the Company's operating results. The Company is not always able to pass on price increases to its customers. Accordingly, some raw material and component price increases could adversely affect its operating results. In addition, it might become necessary, if a given component ceases to be available, for Analogic to modify its product design to adapt to a substitute component or to purchase new tooling to enable a new supplier to manufacture the component, which could result in additional expense and/or delay in product sales.

The Company also depends on a small number of suppliers, some of which are affiliated with customers or competitors and others of which may be small, poorly financed companies, for many of the other raw materials and components that the Company uses in its business. If it were unable to continue to purchase these raw materials and components from its suppliers, the Company's operating results could be adversely affected. Many of the Company's costs are fixed, and its margins depend on its volume of output at its facilities and a reduction in volume could adversely affect its margins.

United States or Foreign Regulatory Clearances and Approvals

The Company's products are used by a number of its customers in the production of medical devices that are subject to a high level of regulatory oversight. A delay or inability to obtain any necessary United States or foreign regulatory clearances or approvals for products could have a material adverse effect on its business. The process of obtaining clearances and approvals can be costly and time-consuming. There is a further risk that any approvals or clearances, once obtained, might be withdrawn or modified. Medical devices cannot be marketed in the United States without clearance from the FDA. Medical devices sold in the United States must also be manufactured in compliance with FDA rules and regulations, which regulate the design, manufacture, packing, storage, and installation of medical devices. Moreover, medical devices are required to comply with FDA regulations relating to investigational research and labeling. Each state may also regulate the manufacture, sale, and use of medical devices. Medical devices are also subject to approval and regulation by foreign regulatory and safety agencies.

1.109

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

b. Workforce

As of November 30, 2005, 17% of our 3,101 employees were covered by collective bargaining or similar agreements all of which are due to expire within two years.

m. Concentrations

Dependence Upon Government Programs and Contracts

Sales in fiscal 2005, fiscal 2004, and fiscal 2003 directly and indirectly to the U.S. government and its agencies, including sales to the Company's significant customers discussed below, totaled $501 million, $420 million, and $263 million, respectively. The demand for certain of the Company's services and products is directly related to the level of funding of government programs.

Major Customers

During fiscal 2005, Lockheed Martin Corporation (Lockheed Martin) and Raytheon Company (Raytheon) accounted for 39% and 16%, respectively, of net sales. During fiscal 2004, Lockheed Martin and Raytheon accounted for 32% and 15%, respectively, of net sales. During fiscal 2003, Lockheed Martin, The Boeing Company (Boeing), and Raytheon accounted for 28%, 15%, and 10%, respectively, of net sales.

Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash equivalents and trade receivables. The Company invests available cash in money market securities of various banks and securities backed by the U.S. government. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an appropriate allowance for uncollectible accounts receivable based upon the expected collectiblity of all accounts receivable. The Company's accounts receivables are generally unsecured and are not backed by collateral from its customers. At November 30, 2005, Lockheed Martin and Raytheon accounted for 46% and 21%, respectively, of accounts receivable. At November 30, 2004, Lockheed Martin and Raytheon accounted for 44% and 17%, respectively, of accounts receivable.

Dependence on Single Source and Other Third Party Suppliers

The Company depends on a single or limited number of outside suppliers for raw materials. The Company closely monitors sources of supply to assure that adequate raw materials and other supplies needed in the manufacturing processes are available. As a U.S. government contractor, the Company is frequently limited to procuring materials and components from sources of supply that can meet rigorous customer and/or government specifications. In addition, as business conditions, the DoD budget, and Congressional allocations change, suppliers of specialty chemicals and materials sometimes consider dropping low volume items from their product lines, which may require, as it has in the past, qualification of new suppliers for raw materials on key programs. Current suppliers of some insulation materials used in rocket motors have announced plans to close manufacturing plants and discontinue certain product lines. These materials, which include a neoprene compound and silica phenolic used as an insulator, are used industry-wide in the production of rocket motors and, therefore, are key to many of the Company's solid booster/motor programs. The Company has qualified new suppliers and materials for this insulation and it expects that such new materials can be available in time to meet future production needs. Another supplier has announced it will stop production of a primary binder compound (R45) used industry-wide in all solid propellants. The U.S. government and companies operating in the propulsion industry worked together to resolve the availability issue of the R45 primary binder material. The Company entered into a new supply contract which includes a "surcharge" as a price adjustment. The Company was able accomplish this with the assistance of its customers through similar price adjustment clauses on many of the Company's existing contracts.

The supply of ammonium perchlorate, a principal raw material used in solid propellant, is limited to a single source that supplies the entire domestic solid propellant industry. This single source, however, maintains two separate manufacturing lines a reasonable distance apart which mitigates the likelihood of a fire, explosion, or other problem impacting production. The industry also currently relies on one primary supplier for graphite fiber, which is used in the production of composite materials. This supplier has multiple manufacturing lines for such material. Although other sources of graphite fiber exist, the addition of a new supplier would require the Company to qualify the new source for use. As of November 30, 2005, neither of these key materials has had any indication that their availability is in jeopardy.

The Company is also impacted, as is the rest of the industry, by increases in the prices and lead-times of raw materials used in production on various fixed-price contracts. Most recently, the Company has seen an increase in the price and lead-times of commodity metals, primarily steel, titanium and aluminum. The Company monitors the price and supply of these materials and works closely with suppliers to schedule purchases far enough in advance and in the most economical means possible to reduce program impact. Additionally, the Company has negotiated economic and/or price adjustment clauses tied to commodity indices, whenever possible with its customers. The Company's past success in negotiating these terms is no indication of its ability to continue to do so.

Prolonged disruptions in the supply of any of key raw materials, difficulty completing qualification of new sources of supply, or implementing use of replacement materials or new sources of supply could have a material adverse effect on the Company's operating results and financial condition.

1.110

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Allowance for Doubtful Accounts

The Company extends credit to customers and other parties in the normal course of business and maintains an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of customers to make required payments. The Company bases such estimates on its historical experience, existing economic conditions and any specific customer collection issues the Company has identified. Uncollectible accounts receivable are written off when a settlement is reached for an amount less than the outstanding balance or when the Company determines that the balance will not be collected. The allowance for doubtful accounts balance was $0.1 million at January 31, 2006 and 2005. As discussed in Note 10, the U.S. government is the Company's primary customer and government contracts account for over 85% of the Company's sales from continuing operations.

Note 10: Government Contracts

The U.S. government is the Company's primary customer and the business depends largely on U.S. government expenditures. As such, decreased government spending or termination of significant government programs could adversely affect the Company. Government contracts account for over 85% of the Company's sales and operating income from continuing operations. During the fourth quarter of Fiscal 2004, the Company completed production under the second multi-year contract with the U.S. Department of the Army ("U.S. Army") for production of the Family of Medium Tactical Vehicles ("FMTV"), and began production under the third multi-year contract. The third U.S. Army contract includes production of 10,889 FMTV trucks and trailers over a five-year period, with options for approximately 12,000 additional trucks and trailers. Funding of the current contract beyond the first four program years is subject to the inherent uncertainties of Congressional appropriations. As is typical of multi-year defense contracts that may be canceled or adjusted by the government, the contract must be funded annually by the U.S. Army and may be terminated at any time for the convenience of the government. If the contract is terminated, other than for the Company's default (in which event there could be serious adverse consequences and claims against the Company), it provides for termination charges that will reimburse the Company for certain allowable costs, but not necessarily for all costs incurred.

The U.S. government has accounted for $630.5 million, $532.0 million and $432.5 million of sales in Fiscal 2005, 2004 and 2003, respectively. Additionally, the U.S. government accounts for approximately 89% and 71% of total accounts receivable at January 31, 2006 and 2005, respectively. The loss of this customer would have a material adverse effect on the Company's consolidated financial condition and results of operations. Additionally, the FMTV incorporates components that are specified by the U.S. Army and are available only from the source or sources selected by the U.S. Army. In addition, the Company uses other suppliers for certain components of the FMTV, some of which are small businesses that are not well capitalized. Interruption in the supply of any of these components, for any reason, could have a material adverse effect on the results of operations.

Major contracts for military systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Pricing negotiations on changes and settlement of claims often extend over prolonged periods of time. The Company's ultimate profitability on such contracts may depend on the eventual outcome of an equitable settlement of contractual issues with the U.S. government. In the fourth quarter of Fiscal 2005, the Company recorded a $3.3 million charge to cost of sales to write off previously anticipated cost recoveries under the FMTV contract.

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

1.111

IDT CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Vulnerability Due to Certain Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, marketable securities and trade accounts receivable. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers in various geographic regions and industry segments comprising the Company's customer base. No single customer accounted for more than 10% of consolidated revenues in fiscal 2005, 2004 and 2003. However, the Company's five largest customers accounted for 9.4%, 12.0% and 14.5% of its consolidated revenues in fiscal 2005, 2004 and 2003, respectively. This concentration of customers increases the Company's risk associated with nonpayment by these customers. In an effort to reduce risk, the Company performs ongoing credit evaluations of its significant retail telecom, wholesale carrier and cable telephony customers, as well as its significant video distribution and fee-for-hire production customers. In addition, the Company often attempts to mitigate the credit risk related to specific wholesale carrier customers by also buying services from the customer in question, in order to create the offset opportunity and reduce its net trade accounts receivable exposure risk.

Trade accounts payable includes approximately $49.6 million and $71.3 million due to telecommunications carriers at July 31, 2005 and 2004, respectively.

The Company is also subject to risks associated with its international operations, including fluctuations in exchange rates and trade accounts receivable collections. Management regularly monitors the creditworthiness of its domestic and international customers and believes that it has adequately provided for any exposure to potential credit losses. Allowances for doubtful accounts are based on management's past collection experience and existing economic conditions. Doubtful accounts are written-off upon final determination that the trade accounts will not be collected.

COMMITMENTS

1.112 Paragraph 18 of *SFAS No.* 5 requires the disclosure of commitments such as those for capital expenditures or an obligation to restrict dividends. Table 1-12 lists the various commitments disclosed in the annual reports of the survey companies.

1.113 Examples of commitment disclosures follow.

1.114

TABLE 1-12: COMMITMENTS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Debt covenant restrictions	384	408	406	388
Purchase agreements	239	240	218	196
Capital expenditures	71	68	62	66
Additional payments related to acquisitions	49	59	38	41
Licensing agreements	41	40	23	25
Employment contracts	37	35	31	32
Sales agreements	33	27	24	35
Other—described	46	80	66	80

Debt Covenant Restrictions

1.115

BEAZER HOMES USA, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Long-Term Debt

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2005, under the most restrictive covenants of each indenture, approximately $359 million of our retained earnings was available for cash dividends and for share repurchases. Each indenture provides that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes.

1.116

POLO RALPH LAUREN CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Financing Agreements

The New Credit Facility requires us to maintain certain covenants:

- a minimum ratio of consolidated Earnings Before Interest, Taxes, Depreciation, Amortization and Rent ("EBITDAR") to Consolidated Interest Expense (as such terms are described in the New Credit Facility); and
- a maximum ratio of Adjusted Debt (as defined in the New Credit Facility) to EBITDAR.

The New Credit Facility also contains covenants that, subject to specified exceptions, restrict our ability to:

- incur additional debt;
- incur liens and contingent liabilities;
- sell or dispose of assets, including equity interests;
- merge with or acquire other companies, liquidate or dissolve;
- engage in businesses that are not a related line of business;
- make loans, advances or guarantees;
- engage in transactions with affiliates; and
- make investments.

Upon the occurrence of an event of default under the New Credit Facility, the lenders may cease making loans, terminate the New Credit Facility, and declare all amounts outstanding to be immediately due and payable. The New Credit Facility specifies a number of events of default (many of which are subject to applicable grace periods), including, among others, the failure to make timely principal and interest payments or to satisfy the covenants, including the financial covenants described above. Additionally, the New Credit Facility provides that an event of default will occur if Mr. Ralph Lauren and related entities fail to maintain a specified minimum percentage of the voting power of our common stock.

1.117

TEXTRON INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Debt and Credit Facilities

Textron Finance has committed bank lines of credit of $1.5 billion, of which $500 million expires in July 2006 and $1.0 billion expires in 2010. The $500 million facility includes a one-year term out option that can effectively extend its expiration into 2007. Textron Finance's lines of credit, not reserved as support for outstanding commercial paper or letters of credit at December 31, 2005, were $300 million. None of these lines of credit was used at December 31, 2005 or January 1, 2005. Lending agreements limit Textron Finance's net assets available for dividends and other payments to Textron Manufacturing to approximately $384 million of Textron Finance's net assets of $1.1 billion at the end of 2005. These lending agreements also contain various restrictive provisions regarding additional debt (not to exceed 800% of consolidated net worth and qualifying subordinated obligations), minimum net worth ($200 million), creation of liens and the maintenance of a fixed charges coverage ratio (no less than 125%).

1.118

WAUSAU PAPER CORP. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Debt

On June 28, 2005, Wausau Paper and the required holders of our $138.5 million senior notes agreed to amend certain financial covenants included in the related Note Purchase Agreement in order to bring the covenants into conformity with the financial covenants under our existing $100 million senior credit facility. In addition to general business and reporting covenants customary in financing agreements of these types, the senior notes and revolving-credit facility require that we comply quarterly with a consolidated debt-to-capital ratio of less than 55%. Both agreements require an adjustable minimum net worth covenant ($284.0 million at December 31, 2005). In addition, the revolving-credit facility includes an interest converage ratio convenant of 3.5. As of December 31, 2005 and 2004, we were in compliance with all required convenants.

Purchase Agreements

1.119

VISHAY INTERTECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

Semiconductor Foundry Agreements

Our Siliconix subsidiary maintains long-term foundry agreements with subcontractors to ensure access to external front-end capacity.

In 2004, Siliconix signed a definitive long-term foundry agreement for semiconductor manufacturing with Tower Semiconductor, pursuant to which Siliconix will purchase semiconductor wafers from and transfer certain technology to Tower Semiconductor. Siliconix will place orders valued at approximately $200 million for the purchase of semiconductor wafers to be manufactured in Tower's Fab 1 facility over a seven to ten year period. The agreement specifies minimum quantities per month and a fixed quantity for the term of the agreement. Siliconix must pay for any short-fall in minimum order quantities specified under the agreement.

The technology transfer from Siliconix to Tower was substantially completed in the third quarter of 2005. After the completion of the technology transfer, the expected purchase commitments are approximately $8 million for year one of the agreement; approximately $16 million for year two of the agreement; and approximately $29 million per year through the end of the agreement.

Future purchase commitments under the Tower agreement are estimated as follows *(in thousands).*

2006	$14,000
2007	22,000
2008	29,000
2009	29,000
2010	29,000
Thereafter	73,000

Pursuant to the agreement, Siliconix advanced $20 million to Tower in the third quarter of 2004, to be used for the purchase of additional equipment required to satisfy Siliconix's orders. This advance was considered a prepayment on future wafer purchases, reducing the per wafer cost to Siliconix over the term of the agreement. The consolidated balance sheet as of December 31, 2005 includes $1,907,000 in other current assets for prepayments expected to be utilized within one year and $17,627,317 in other assets related to credits to be utilized during the remaining term of the agreement. Management believes that these commitments are at prices which are not in excess of current market prices.

Also in 2004, Siliconix entered into a five-year foundry agreement for semiconductor manufacturing with a subcontractor in Japan. This agreement was a continuation and expansion of a previous technology transfer and business agreement for the manufacture of silicon wafers. The agreement calls for Siliconix to provide a rolling twelve-month forecast of estimated requirements. The first six months of this forecast are fixed as to quantity, and the subsequent six months are guaranteed not to be less than a quantity stated in the agreement. Thereafter, the monthly quantity may vary based on market demand. Under the agreement, Siliconix must guarantee that its business with this subcontractor represents a minimum percentage of wafer requirements and is required to use its best efforts not to reduce the average monthly demand rate below a specified threshold.

Management believes that its minimum purchase commitments with his subcontractor are as follows *(in thousands):*

2006	$48,000
2007	27,000
2008	27,000
2009	9,000

Management believes that actual purchases will be in excess of these minimum commitments. Purchases from this subcontractor in 2005 were approximately $54,000,000.

These purchase commitments are for the manufacture of proprietary products using Siliconix-owned technology licensed to these subcontractors by Siliconix, and accordingly, management can only estimate the "market price" of the wafers which are the subject of these commitments. Management believes that these commitments are at prices which are not in excess of current market prices.

Other Purchase Commitments

See Note 15 for a discussion of tantalum and palladium purchase commitments.

The Company has various other purchase commitments incidental to the ordinary conduct of business. Such commitments are at prices which are not in excess of current market prices.

Note 15 (In Part): Current Vulnerability Due to Certain Concentrations

Sources of Supplies

Many of the Company's products require the use of raw materials that are produced in only a limited number of regions around the world or are available from only a limited number of suppliers. The Company's consolidated results of operations may be materially and adversely affected if the Company has difficulty obtaining these raw materials, the quality of available raw materials deteriorates or there are significant price increases for these raw materials. For periods in which the prices of these raw materials are rising, the Company may be unable to pass on the increased cost to the Company's customers, which would result in decreased margins for the products in which they are used. For periods in which the prices are declining, the Company may be required to write down its inventory carrying cost of these raw materials which, depending on the extent of the difference between market price and its carrying cost, could have a material adverse effect on the Company's net earnings.

From time to time, there have been short-term market shortages of raw materials utilized by the Company. While these shortages have not historically adversely affected the Company's ability to increase production of products containing these raw materials, they have historically resulted in higher raw material costs for the Company. The Company cannot assure that any of these market shortages in the future would not adversely affect the Company's ability to increase production, particularly during periods of growing demand for the Company's products.

Tantalum

Vishay is a major consumer of the world's annual production of tantalum. Tantalum, a metal purchased in powder or wire form, is the principal material used in the manufacture of tantalum capacitors. There are currently three major suppliers that process tantalum ore into capacitor grade tantalum powder. Due to the strong demand for the Company's tantalum capacitors and difficulty in obtaining sufficient quantities of tantalum powder from our suppliers, the Company stockpiled tantalum in 2000 and early 2001. From 2001 to 2003, the Company and its competitors experienced a significant decline in the tantalum capacitor business as well as significant decreases in the market prices for tantalum. As a result, the Company recorded, in costs of products sold, a write-down of $5,406,000 on tantalum inventories during the year ended December 31, 2003. The Company also recorded (gain)/loss adjustments to its tantalum purchase commitments of $(963,000), $16,213,000 and $11,392,000 for the years ended December 31, 2005, 2004, and 2003, respectively. The Company's purchase commitments were entered into at a time when market demand for tantalum capacitors was high and tantalum powder was in short supply.

The Company's liability for purchase commitments is estimated based on contractually obligated purchase prices, expected market prices, and the contractually obligated mix of tantalum-grades to be purchased. The mix of tantalum-grades to be purchased is within a range specified in the contracts. The pricing trend for tantalum has been relatively stable since 2003. If the downward pricing trend were to resume, the Company could again be required to write down the carrying value of its tantalum inventory and record additional losses on its purchase commitments. Changes in the Company's mix of tantalum-grade purchases could also require the Company to record additional losses on its purchase commitments.

The Company is obligated under a contract with Cabot Corporation to make purchases of tantalum of approximately $67,100,000 in 2006. The Company purchased $101,057,000, $107,438,000, and $107,906,000 under these contracts during the years ended December 31, 2005, 2004, and 2003, respectively. As long as Vishay is in compliance with its purchase obligations under the Cabot contracts, its minimum purchase commitments will not increase. The Company believes that it has been in compliance with all requirements of these contracts through December 31, 2005. If Vishay were to default under its commitments, then the minimum requirements would revert to the quantities specified in the contracts prior to their modification in July 2002, and increase to $81,300,000 in 2006. Vishay believes that the likelihood that it would default on its obligations under the contracts is remote.

The loss on purchase commitments of $11,392,000 recorded in 2003 was principally attributable to a decline in market prices. The mix of the Company's purchases of tantalum-grades during 2004 and 2005 was significantly different than initially assumed, which resulted in additional losses on purchase commitments being recorded in 2004 and 2005 of $16,213,000 and approximately $6 million, respectively. One of the Company's contracts with Cabot provides for price reductions in 2006 if certain conditions are met. Those conditions were met during the fourth quarter of 2005, and accordingly, the Company's estimates of its liability for these purchase commitments were adjusted to reflect the fact that the Company will receive these conditional price reductions in 2006. The amount of this adjustment was approximately $7 million. This adjustment, net of approximately $6 million of costs associated with differences between the actual and anticipated mix of tantalum-grades purchased during 2005, resulted in the net gain of $963,000 included on the consolidated statement of operations for the year ended December 31, 2005.

At December 31, 2005 and 2004, the Company had tantalum with a book value of $117,359,000 and $97,656,000, respectively. Of these amounts, the Company classified $65,179,000 and $42,039,000, respectively, as other assets, representing the value of quantities which would not be used within one year.

At December 31, 2005 and 2004, the Company had $19,741,000 and $64,510,000, respectively, of total liabilities recorded related to tantalum purchase commitments. Of the total liabilities recorded, the Company has classified $19,741,000 and $33,410,000 as current liabilities within other accrued expenses at December 31, 2005 and 2004, respectively, for amounts expected to be utilized within one year.

Palladium

Palladium, a metal used to produce multi-layer ceramic capacitors, is currently found primarily in South Africa and Russia. Palladium is a commodity product that is subject to price volatility. The price of palladium has fluctuated in the range of approximately $148 to $322 per troy ounce during the last three years. As of December 31, 2005, the price of palladium was approximately $258 per troy ounce. During the years ended December 31, 2004 and 2003, the Company recorded in costs of products sold write-downs of $400,000 and $1,585,000, respectively, to reduce palladium inventories on hand to then-current market value. The net book value of palladium inventories was $3,630,000 and $3,218,000 at December 31, 2005 and 2004, respectively.

At December 31, 2004, the Company had commitments to purchase palladium in 2005 at a contract price that was greater than the then-current market price. The Company recognized a loss of $400,000 during the year ended December 31, 2004 related to these purchase commitments. The Company had no purchase commitments for palladium at December 31,2005.

1.120

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Other Long-Term Commitments

We have the following unconditional obligations:

Share Repurchases

In December 2005, we entered into an agreement to repurchase $275 million of our common stock through an accelerated share repurchase transaction in January 2006. The terms of the accelerated share repurchase transaction are discussed in Note 14.

Fuel Supply

We have purchase agreements expiring at various dates through 2010 that require us to purchase minimum amounts of waste and conventional fuels at our independent power production plants. These fuel supplies are used to produce electricity for sale to electric utilities, which is generally subject to the terms and conditions of long-term contracts. Our purchase agreements have been established based on the plants' anticipated fuel supply needs to meet the demands of our customers under these long-term electricity sale contracts. Under our fuel supply take-or-pay contracts, we are generally obligated to pay for a minimum amount of waste or conventional fuel at a stated rate even if such quantities are not required in our operations.

Disposal

We have several agreements expiring at various dates through 2030 that require us to dispose of a minimum number of tons at third party disposal facilities. Under these put-or-pay agreements, we are required to pay for the agreed upon minimum volumes regardless of the actual number of tons placed at the facilities.

Waste Paper

We are party to a waste paper purchase agreement that expires in 2010 that requires us to purchase a minimum number of tons of waste paper from the counterparty. The cost per ton of waste paper purchased is based on market prices plus the cost of delivery of the product to our customers.

Royalties

Certain of our landfill operating agreements require us to make minimum royalty payments to the prior land owners, lessors or host community where the landfill is located. Our obligations under these agreements expire at various dates through 2023. Although the agreements provide for minimum payments, the actual payments we expect to make under the agreements, which are based on per ton rates for waste received at the landfill, are significantly higher.

Our unconditional obligations are established in the ordinary course of our business and are structured in a manner that provides us with access to important resources at competitive, market-driven rates. Our actual future obligations under these outstanding agreements are generally quantity driven, and, as a result, our associated financial obligations are not fixed as of December 31, 2005. We currently expect the products and services provided by these agreements to continue to meet the needs of our ongoing operations. Therefore, we do not expect these established arrangements to materially impact our future financial position, results of operations or liquidity.

14 (In Part): Capital Stock, Share Repurchases and Dividends

Share repurchases

In December 2005, we entered into an agreement to repurchase $275 million of our common stock through an accelerated share repurchase transaction in January 2006. The number of shares we repurchase under the accelerated repurchase transaction is determined by dividing the $275 million by the fair market value of our common stock on the repurchase date. Consistent with our previous accelerated repurchase agreements, at the end of the contractual valuation period we may be required to make a settlement payment for the difference between the $275 million paid at the inception of the agreement and the weighted average daily market price of our common stock during the valuation period times the number of shares we repurchased. We would be required to make such a settlement payment if the weighted average daily market price of our stock during the valuation period is higher than the weighted average per share price we initially pay. If such a settlement payment is required, we may elect to settle in either cash or shares of our common stock.

Capital Expenditures

1.121

GLOBALSANTAFE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingencies

Capital Commitments

During the first quarter of 2005, we took delivery of our two ultra-deepwater semisubmersibles ordered from PPL Shipyard PTE, Ltd. of Singapore ("PPL"), the *GSF Development Driller* I and the *GSF Development Driller II.* Construction costs for the *GSF Development Driller I* totaled approximately $309 million, excluding an estimated $105 million of capital spares, startup expenses, customer-required modifications and mobilization costs, $31 million related to the thruster defect discussed below, and $75 million of capitalized interest. We have incurred a total of approximately $421 million of capitalized costs related to the *GSF Development Driller I*, excluding capitalized interest, as of December 31, 2005. Construction costs for the *GSF Development Driller II* totaled approximately $309 million, excluding an estimated $79 million of capital spares, startup expenses, customer-required modifications and mobilization costs, $28 million related to the thruster defect discussed below, and $47 million of capitalized interest. We have incurred a total of approximately $414 million of capitalized costs related to the *GSF Development Driller II*, excluding capitalized interest, as of December 31, 2005. Both of these rigs sustained hurricane-related damage during 2005. We expect to recover the costs to remediate the hurricane-related damage to these rigs from our underwriters.

During the second quarter of 2005 we discovered a defect and resulting damage in the thruster nozzles on the two new ultra-deepwater semisubmersibles. Both rigs were being remediated for the thruster defect and resulting damage when they sustained additional damage as a result of Hurricane Katrina. This additional damage further delayed the start of the initial drilling contracts for the *GSF Development Driller II* and the *GSF Development Driller I.* Remediations of *GSF Development Driller II* have been completed and the rig went on contract in November 2005. However, in December 2005 problems were noted on the rigid conduit lines on the riser and the rig was no longer able to perform drilling operations. Evaluations are ongoing, but a temporary modification allowed the rig to resume drilling operations in February 2006. Remediation of this problem will also be required on the *GSF Development Driller I* riser and the spare riser string shared by both rigs. The estimated cost to remediate the problem for the risers on both rigs and the spare riser is expected to be between $10 to $15 million and will be added to the capitalized cost of the rigs. The riser damage, the thruster defect and damage from the hurricanes has further delayed the start of the initial drilling contract for the *GSF Development Driller I* until the second quarter of 2006.

As noted above, we currently expect the cost to remediate the thruster equipment for both rigs, exclusive of continued capitalized interest, will be approximately $59 million. We expect the costs to remediate the Hurricane Katrina damage to the two semisubmersibles to total approximately the $97 million. Any costs not recovered from the manufacturer or our insurance underwriters in respect of the repair and replacement costs for the thruster damage or hurricane damage will be added to the capitalized cost of the rigs. We will also make claims under our loss of hire insurance for the rigs for the periods required to remediate the damage arising from both the thruster defect and Hurricane Katrina. Under our loss of hire insurance, after the 60-day waiting period we are entitled to reimbursement for our full dayrate for up to 270 days. Significant unresolved issues remain as to the proper application of the loss of hire waiting periods, which could lead to substantial differences in the amount of the loss of hire recovery. The underwriters have formally reserved their rights to decline coverage for the thruster damage claims on the rigs in respect of both the hull and machinery and loss of hire coverage. As a result, in 2005 we have recorded estimated loss of hire insurance recoveries equal to $3.8 million with respect to the *GSF Development Driller I*, which is the amount we deem to be probable under the assumption that the rig will bear two consecutive 60 day waiting periods, one for the thruster damage claim and one for the hurricane damage claim. The *GSF Development Driller II* was not out of service longer than the combined 120 day waiting period and therefore no loss of hire recoveries have been recorded for this rig. When the loss of hire claims are resolved with the underwriters the amount of loss of hire recoveries could be different than the amount currently recorded.

In the first quarter of 2006 we entered into a contract with Keppel FELS, a shipyard located in Singapore, for construction of a new ultra-deepwater semisubmersible, to be named the *GSF Development Driller III.* Construction costs, excluding capital spares, startup costs, capitalized interest, customer-required modifications and mobilization costs, are estimated to total approximately $590 million. In the first quarter of 2006 we made an initial shipyard progress payment of $53 million.

1.122

UNIVERSAL CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Commitments and Other Matters

Commitments

The Company's Board of Directors has approved investments to expand tobacco production and processing capacity in certain countries in Africa. These investments are expected to offset some of the decline in crop production in Zimbabwe and include a new processing facility in Mozambique. Through March 31, 2005, the Company had invested $34.9 million in the Mozambique processing facility and had additional commitments to spend approximately $12.8 million. Commitments for other capital spending totaled approximately $7.4 million at March 31, 2005.

Additional Payments Related to Acquisitions

1.123

ST. JUDE MEDICAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATMENTS

Note 2 (In Part): Acquisitions and Minority Investments

Acquisitions (In Part)

Fiscal Year 2005 (In Part)

Velocimed, LLC (Velocimed)

On April 6, 2005, the Company completed its acquisition of the businesses of Velocimed for $70.9 million, which includes closing costs less $6.7 million of cash acquired. Velocimed develops and manufactures specialty interventional cardiology devices. The Company acquired Velocimed to strengthen its portfolio of products in the interventional cardiology market. The Company recorded an IPR&D charge of $13.7 million associated with this transaction in the second quarter of 2005.

The goodwill recorded as a result of the Velocimed acquisition is not deductible for income tax purposes and was allocated entirely to the Company's CD operating segment. The goodwill recognized represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of Velocimed, the Company recorded $61.9 million of developed and core technology intangible assets that have estimated useful lives of 15 years.

Certain funds held in escrow by the Company amount to $5 million and are to be released in the fourth quarter of 2006 provided certain conditions are met, as defined in the purchase agreement. Additionally, contingent payments of up to $100 million are due if future revenue targets are met through 2008, and a milestone payment of up to $80 million is tied to U.S. Food and Drug Administration (FDA) approval of the Premere™ patent foramen ovale closure system, with no milestone payment being made if approval occurs after December 31, 2010. All future payments made by the Company will be recorded as additional goodwill.

Savacor, Inc. (Savacor)

On December 30, 2005, the Company acquired Savacor for $49.7 million which includes closing costs less $0.4 million in cash acquired, plus additional contingent payments related to product development milestones for regulatory approvals and related to revenues in excess of minimum future targets. Savacor was a development-stage company focused on the development of a device that measures left atrial pressure and body temperature to help physicians detect and manage symptoms associated with progressive heart failure. The Company recorded an IPR&D charge of $45.7 million associated with this transaction.

Contingent Consideration Payment

Irvine Biomedical Inc.

In December 2005, the Company paid $4.8 million of contingent purchase consideration to the applicable non-St. Jude Medical shareholders of IBI. This contingent payment, which was recorded as goodwill, was earned as a result of IBI receiving FDA approval of the IBI-1500T6 Cardiac Ablation Generator and Therapy™ Dual-8™ ablation catheters prior to a milestone date. These devices are part of an ablation system in which the catheters are connected to a generator which delivers radiofrequency or ultrasound energy through the catheter to create lesions through ablation of cardiac tissue. In addition, the purchase agreement provides for additional contingent purchase consideration of up to $6.5 million to the non-St. Jude Medical shareholders if IBI receives FDA approval by certain specified dates in 2006 of other certain EP catheter ablation systems currently in development. All future payments will be recorded as additional goodwill.

Licensing Agreement

1.124

MATTEL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

Commitments

In the normal course of business, Mattel enters into contractual arrangements to obtain and protect Mattel's right to create and market certain products, and for future purchases of goods and services to ensure availability and timely delivery. Such arrangements include royalty payments pursuant to licensing agreements and commitments for future inventory purchases. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the term of the contracts. Current and future commitments for guaranteed payments reflect Mattel's focus on expanding its product lines through alliances with businesses in other industries.

Licensing and similar agreements provide for terms extending from 2006 through 2011 and contain provisions for future minimum payments as shown in the following table (in thousands):

	Minimum Payments
2006	$ 60,000
2007	50,000
2008	30,000
2009	30,000
2010	20,000
Thereafter	13,000
	$203,000

Royalty expense for 2005, 2004 and 2003 was $225.6 million, $204.5 million and $169.2 million, respectively.

Employment Contracts

1.125

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All dollars in millions)

14 (In Part): Commitments and Contingent Liabilities

Executive Severance Agreements

Our Board of Directors has adopted executive severance agreements, which create certain liabilities in the event of the termination of executives following a change of control. As of March 1, 2006, the estimated total cash severance obligation under the executive severance agreements should all seven current executive officers be terminated following a change of control was approximately $38.3, which includes for each executive officer an amount equal to three times (for officers appointed prior to August 23, 2005) or two times (for officers appointed on or after August 23, 2005): (i) the executive officer's bonus amount as specified in his severance agreement; and (ii) the executive officer's annual base salary.

In addition, three executive officers have outstanding non-interest bearing 20-year relocation home loans totaling $4.5 granted in connection with the 2001 move of our corporate headquarters. In the event of the death or permanent disability of the employee or a change in control of SPX, we will forgive the note and pay the employee or his estate an amount equal to the employee's tax liability as a result of the loan forgiveness.

Our Board of Directors also approved employment agreements for the executive officers. These agreements have rolling terms of either one year or two years and specify the executive's current compensation, benefits and perquisites, the executive's entitlements upon termination of employment, and other employment rights and responsibilities.

In connection with the retirement and resignation of our then Chairman, Chief Executive Officer, and President in December 2004, we entered into a separation agreement with him that resulted in a charge in 2004 of approximately $7.3, which is net of a credit of $8.2 associated with compensation previously recorded for restricted stock that was forfeited as part of the separation agreement. Amounts still due to our former Chairman, Chief Executive Officer, and President under the separation agreement totaled approximately $8.0 at December 31, 2005 and are payable in 2008.

Marketing Agreement

1.126

THE SCOTTS MIRACLE-GRO COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Marketing Agreement

Under the terms of the Marketing Agreement with Monsanto, the Company is Monsanto's exclusive agent for the domestic and international marketing and distribution of consumer

Roundup® herbicide products. Under the terms of the Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto in consideration for the performance of its duties as agent. The Marketing Agreement also requires the Company to make annual payments to Monsanto as a contribution against the overall expenses of the consumer Roundup business.

The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes (EBIT), as defined in the Marketing Agreement, of the consumer Roundup business. Each year's percentage varies in accordance with the terms of the Marketing Agreement based on the achievement of two earnings thresholds and on commission rates that vary by threshold and program year.

The annual contribution payment is defined in the Marketing Agreement as $20 million. However, portions of the annual payments for the first three years of the Marketing Agreement were deferred. No payment was required for the first year (fiscal 1999), a payment of $5 million was required for the second year and a payment of $15 million was required for the third year so that a total of $40 million of the contribution payments was deferred. Beginning in fiscal 2003, the fifth year of the Marketing Agreement, the annual payments to Monsanto increased to at least $25 million, which included per annum interest charges at 8%. The annual payments were increased above $25 million if certain significant earnings targets were exceeded.

Through July 2, 2005, the Company recognized a periodic charge associated with the annual contribution payments equal to the required payment for that period. The Company had not recognized a charge for the portions of the contribution payments that were deferred until the time those deferred amounts were due under the terms of the Marketing Agreement. Based on the then available facts and circumstances, the Company considered this method of accounting for the contribution payments to be appropriate after consideration of the likely term of the Marketing Agreement, the Company's ability to terminate the Marketing Agreement without paying the deferred amounts (as supported by legal opinion from The Bayard Firm, P.A.), the Company's assessment that the Marketing Agreement could have been terminated at any balance sheet date without incurring significant economic consequences as a result of such action and the fact that a significant portion of the deferred amount could never have been paid, even if the Marketing Agreement is not terminated prior to 2018, unless significant earnings targets were exceeded.

The Bayard Firm, P.A. was special Delaware counsel retained during fiscal 2000 solely for the limited purpose of providing legal opinion in support of the contingent liability treatment of the deferred contribution amounts under the Marketing Agreement previously adopted by the Company and has neither generally represented or advised the Company nor participated in the preparation or review of the Company's financial statements of any SEC filings. The terms of such opinion specifically limit the parties who are entitled to rely on it.

During the quarter ended July 2, 2005, the Company updated its assessment of the amounts deferred and previously considered a contingent obligation under the Marketing Agreement. Based on the recent strong performance of the consumer Roundup business and other economic developments surrounding the business, the Company now believes that the deferred contribution amounts outstanding will be paid in full between 2010 and 2012 under the terms of the Marketing Agreement. In management's judgment, it is now probable that the deferred contribution payment that totaled $45.7 million as of July 2, 2005 will be paid. As such, the Company recorded this liability with a charge to net sales in the quarter ended July 2, 2005. This amount bore interest at 8% until it was paid in October 2005. The deferred contribution balance is recorded as a current liability at September 30, 2005.

The elements of the net commission earned under the Marketing Agreement included in "Net sales" for the three years ended September 30, 2005 were as follows:

	2005	2004	2003
Gross commission	$ 67.0	$ 58.2	$ 45.9
Contribution expenses	(23.8)	(26.4)	(25.0)
Deferred contribution charge	(45.7)	—	—
Amortization of marketing fee	(2.8)	(3.3)	(3.3)
Net commission (expense) income	(5.3)	28.5	17.6
Reimbursements associated with marketing agreement	40.7	40.1	36.3
Total net sales associated with marketing agreement	$ 35.4	$ 68.6	$ 53.9

For fiscal 2005, the net commission earned under the Marketing Agreement is included in net sales. Prior to fiscal 2005, the elements of net commission were previously reported as separate line items in the Consolidated Statements of Operations. The net commissions for fiscal years 2004 and 2003 have been reclassified to net sales to conform to the fiscal 2005 presentation.

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of $33 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. Based on management's updated assessment of the likely term of the Marketing Agreement, the useful life over which the marketing fee is being amortized has been adjusted to 20 years. Prior to fiscal 2005, the marketing fee had been amortized over ten years.

Under the terms of the Marketing Agreement between the Company and Monsanto, the Company performs certain functions, primarily manufacturing conversion, selling and marketing support costs, on behalf of Monsanto in the conduct of the consumer Roundup business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto, for which the Company recognizes no gross margin or net income. Prior to fiscal 2005, these costs were recognized in the Consolidated Statements of Operations on a net basis as a recovery of incurred costs rather than separately recognizing the reimbursement of these costs as revenue. Beginning in fiscal 2005, the Company determined it is appropriate to record costs incurred under this Agreement for which it is the primary obligor on a gross basis, recognizing such costs in "Cost of sales" and the reimbursement of these costs in "Net sales." The related revenues and cost of sales were $40.7 million, $40.1 million and $36.3 million for fiscal 2005, 2004 and 2003, respectively. All prior periods presented have been reclassified to conform to the current presentation.

The Marketing Agreement has no definite term except as it relates to the European Union countries. With respect to the European Union countries, the term of the Marketing Agreement has been extended through September 30, 2008 and may be renewed at the option of both parties for two additional successive terms ending on September 30, 2015 and 2018, with a separate determination being made by the parties at least six months prior to the expiration of each such term as to whether to commence a subsequent renewal term. If Monsanto does not agree to the renewal term with respect to the European Union countries, the commission structure will be renegotiated within the terms of the marketing agreement. For countries outside of the European Union, the Marketing Agreement continues indefinitely unless terminated by either party. The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement for an event of default (as defined in the Marketing Agreement) by the Company or a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing Agreement for an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. If Monsanto terminates the Marketing Agreement upon a change of control of Monsanto or the sale of the consumer Roundup® business prior to September 30, 2008, we will be entitled to a termination fee in excess of $100 million. If we terminate the Marketing Agreement upon an uncured material breach, material fraud or material willful misconduct by Monsanto, we will be entitled to receive a termination fee in excess of $100 million if the termination occurs prior to September 30, 2008. The termination fee declines over time from $100 million to a minimum of $16 million for terminations between September 30, 2008 and September 30, 2018.

Cooperative Agreement

1.127

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Commitments and Contingencies

Co-Operative Agreements

In 2003, Ship Systems executed agreements with the states of Mississippi and Louisiana, respectively, whereby Ship Systems will lease facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ship Systems to these states. Under the Mississippi agreement, Ship Systems is required to match the state's funding with modernization and sustaining & maintenance expenditures of up to $313 million and create up to 2,000 new fulltime jobs in Mississippi by December 2008. As of December 31, 2005, $100 million has been appropriated by Mississippi requiring an increase of 1,334 jobs and Ship Systems has fully complied with its job creation requirement. Under the Louisiana agreement, Ship Systems is required to match the state's funding for expenditures up to $56 million through 2007, and employ a minimum of 5,200 full-time employees in 16 of the 32 fiscal quarters beginning January 1, 2003, and ending December 31, 2010. As of December 31, 2005, $56 million has been appropriated by Louisiana and employment commitments for 12 of the 16 quarters have been fulfilled.

Failure by Ship Systems to meet these commitments would result in reimbursement by Ship Systems to Mississippi and Louisiana in accordance with the respective agreements. As of December 31, 2005, management believes that Ship Systems is in compliance with its commitments to date under these agreements, and expects that all future commitments under these agreements will be met based on the most recent Ship Systems business plan.

FINANCIAL INSTRUMENTS

1.128 The Financial Accounting Standards Board (FASB) has issued several statements concerning financial instruments. SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires reporting entities to disclose the fair value of financial instruments, and as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, includes the disclosure requirements of credit risk concentrations from SFAS No. 105, *Disclosure of Information About Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments With Concentrations of Credit Risk. SFAS No. 133* establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which amended *SFAS No. 133*, addresses implementation issues for certain derivative instruments and hedging activities. SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities. Prior to *SFAS No. 150*, many of these freestanding financial instruments were classified as equity. Effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, amends *SFAS No. 133. SFAS No. 155* simplifies the accounting for certain hybrid financial instruments by permitting fair value remeasurement of any hybrid financial instrument that contains an embedded derivative that would require bifurcation, including beneficial interests in securitized financial assets.

1.129 Table 1-13 lists the frequencies of the various types of financial instruments of the survey companies. 287 survey companies entered into interest rate swaps. 314 survey companies entered into forward foreign currency contracts, options, or foreign exchange contracts. Swaps, futures, forward contracts, collars, or options were common types of commodity contracts reported by the survey companies. 103 survey companies entered into these types of contracts. The most frequent bases used by the survey companies to estimate fair value were broker quotes or market quotes.

1.130 Examples of fair value disclosure for financial instruments and of disclosures for concentration of credit risk follow.

1.131

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Foreign currency contracts	326	309	312	308
Interest rate contracts	309	331	335	341
Commodity contracts	107	112	112	109
Guarantees/indemnifications:				
Debt	233	232	227	226
Lease payments	100	91	75	56
Contract performance	90	65	58	54
Environmental	44	45	66	N/C*
Employee related	38	36	N/C*	N/C*
Intellectual property related	35	60	N/C*	N/C*
Tax	23	46	34	N/C*
Support agreements	18	18	21	24
Product/service related	10	20	N/C*	N/C*
Other	34	33	97	30
Letters of credit	343	326	304	263
Sale of receivables with recourse	23	30	33	20

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

DERIVATIVE FINANCIAL INSTRUMENTS

1.132

CHIQUITA BRANDS INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Exchange and Hedging

Chiquita utilizes the U.S. dollar as its functional currency, except for its Atlanta AG operations and operations in France, which use the euro as their functional currency.

The company recognizes all derivatives on the balance sheet at fair value and recognizes the resulting gains or losses as adjustments to net income if the derivative does not qualify for hedge accounting or other comprehensive income ("OCI") if the derivative does qualify for hedge accounting.

The company is exposed to currency exchange risk on foreign sales and price risk on purchases of fuel oil used in the company's ships. The company reduces these exposures by purchasing option and forward contracts. These options and forwards qualify for hedge accounting as cash flow hedges. The company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. To the extent that these hedges are effective in offsetting the company's underlying risk exposure, gains and losses are deferred in accumulated OCI until the underlying transaction is recognized in net income. Gains or losses on effective hedges that have been terminated prior to maturity are also deferred in accumulated OCI until the underlying transaction is recognized in net income. For the ineffective portion of the hedge, gains or losses are reflected in net income in the current period. The earnings impact of the option and forward contracts is recorded in net sales for currency hedges, and in cost of sales for fuel oil hedges. The company does not hold or issue derivative financial instruments for speculative purposes. See Note 9 for additional discussion of the company's hedging activities.

Note 9. Financial Instruments

The company enters into contracts to hedge its risks associated with euro exchange rate movements, primarily to reduce the negative earnings impact that any significant decline in the value of the euro would have on the conversion of euro-based revenue into U.S. dollars. The company primarily purchases put options to hedge this risk. Purchased put options, which require an upfront premium payment, can reduce the negative earnings impact on the company of a future significant decline in the value of the euro, without limiting the benefit received from a stronger euro. The company also enters into hedge contracts for fuel oil for its shipping operations, which permit it to lock in fuel purchase prices for up to two years and thereby minimize the volatility that changes in fuel prices could have on its operating results.

Currency hedging costs charged to the Consolidated Statement of Income were $8 million in 2005 and $30 million in 2004. These costs reduced the favorable impact of the exchange rate on U.S. dollar realizations of euro-denominated sales. At December 31, 2005, unrealized losses of $5 million on the company's euro put-option contracts were included in "Accumulated other comprehensive income," substantially all of which is expected to be reclassified to net income during the next 12 months. Unrealized gains of $16 million on the fuel forward contracts were also included in "Accumulated other comprehensive income," of which $12 million is expected to be reclassified to net income during the next 12 months.

At December 31, 2005, the company's hedge portfolio was comprised of the following:

Hedge instrument	Notional Amount	Average Rate/Price	Settlement Year
Currency hedges			
Euro put options	€385 million	$1.19/€	2006
Euro put options	€175 million	$1.20/€	2007
Fuel hedges			
3.5% Rotterdam barge			
Fuel oil forward contracts	115,000 mt	$164/mt	2006
Fuel oil forward contracts	65,000 mt	$243/mt	2007
Singapore/New York harbor			
Fuel oil forward contracts	25,000 mt	$191/mt	2006
Fuel oil forward contracts	15,000 mt	$280/mt	2007

At December 31, 2005, the fair value of the foreign currency option and fuel oil forward contracts was $38 million, $26 million of which was included in "Other current assets" and $12 million in "Investments and other assets, net." During 2005, the change in the fair value of the fuel oil forward contracts relating to hedge ineffectiveness, and included in net income, was $3 million.

The carrying values and estimated fair values of the company's debt, fuel oil contracts and foreign currency option and zero—cost collar contracts are summarized below:

	2005		2004	
(Assets (liabilities), in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Parent company debt				
7½% Senior notes	$(250,000)	$(220,000)	$(250,000)	$(253,000)
8⅞% Senior notes	(225,000)	(210,00)	—	—
Subsidiary debt				
Term loan B	(24,588)	(25,000)	—	—
Term loan C	(373,125)	(376,000)	—	—
Other	(124,395)	(124,300)	(99,467)	(100,000)
Fuel oil forward contracts	19,150	19,150	1,139	1,139
Foreign currency option contracts	18,603	18,603	4,836	4,836
Foreign currency zero-cost collars	—	—	(681)	(681)

The fair value of the company's publicly-traded debt is based on quoted market prices. The term loans are traded between institutional investors on the secondary loan market, and the fair values of the term loans are based on the last available trading price. Fair values for the foreign currency option and zero—cost collar contracts, and fuel oil contracts are based on estimated amounts that the company would pay or receive upon termination of the contracts at December 31, 2005 and 2004. Fair value for other debt is estimated based on the current rates offered to the company for debt of similar maturities.

The company is exposed to credit risk on its hedging instruments in the event of nonperformance by counterparties. However, because the company's hedging activities are transacted only with highly rated institutions, Chiquita does not anticipate nonperformance by any of these counterparties. Additionally, the company has entered into agreements which limit its credit exposure to the amount of unrealized gains on the option and forward contracts. The company does not require collateral from its counterparties.

Excluding the effect of the company's foreign currency option and zero-cost collar contracts, net foreign exchange gains (losses) were $(21) million in 2005 and $8 million in each of 2004 and 2003.

1.133

SEQUA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

Derivative financial instruments are utilized to manage foreign exchange and natural gas price risks. Sequa has established a control environment which assigns senior executives and in certain instances operational management responsibility for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Sequa does not buy, hold or sell derivative financial instruments for trading purposes.

Gains and losses on short-term forward foreign exchange contracts and derivatives thereof, used by Sequa to manage its exposure to exchange rate fluctuations on certain recognized assets and liabilities denominated in a currency other than the functional currency, are recorded as offsets to the losses and gains reported in earnings upon remeasurement of such assets or liabilities into the functional currency. Gains and losses on short-term forward foreign exchange contracts used to hedge the fair value of certain firm sales commitments with third parties are recognized in earnings as are the losses and gains on the related firm commitment.

Forward foreign exchange contracts and derivatives thereof are used to hedge the cash flows of certain forecasted sales and intercompany firm sales commitments. These contracts are primarily short-term in nature with the maximum hedge period not exceeding two years. Gains and losses on these contracts, representing the effective portion of the hedging activity are reported in Accumulated Other

Comprehensive Income. These deferred gains and losses are recognized in operating income in the period in which the sale is recognized. Gains and losses resulting from the ineffective portion of the hedging activity are included in the Consolidated Statement of Income in the period they occur. Other, net in the Consolidated Statement of Income includes income of $894,000 in 2005, expense of $2,514,000 in 2004 and income of $227,000 in 2003, related to the fair market valuation of forward foreign exchange contracts and derivatives thereof that did not qualify for cash flow hedge accounting.

Gains and losses on the fair market value of natural gas swaps that include a written option and which do not qualify for hedge accounting are reported in earnings as a component of Other, net. Gains and losses on natural gas swaps that do not include a written option and which are highly effective in hedging the cash flow variability of certain anticipated purchases are deferred and included as a component of Accumulated Other Comprehensive Income until the purchase is consummated. At December 31, 2005, there were no open natural gas swap agreements.

Note 13. Financial Instruments

Sequa utilizes forward foreign exchange contracts and derivatives thereof to reduce exposure to foreign currency fluctuations on certain existing assets and liabilities, firm commitments and anticipated transactions. Sequa also utilizes natural gas swap agreements to convert a portion of its estimated natural gas requirements to fixed rates. Sequa's accounting policies with respect to these financial instruments are described in Note 1 to these Consolidated Financial Statements. At December 31, 2005 and December 31, 2004, Sequa had forward foreign exchange contracts and derivatives thereof with notional amounts primarily denominated in Euros: 21,348,000 and 59,854,000, respectively; in US dollars: 13,339,000 and 8,832,000, respectively. No natural gas swaps were outstanding as of December 31, 2005 and 2004. In January 2006, Sequa entered into a natural gas swap with an initial notional amount of $2,665,000 (extends through December 2006) to cover a portion of its natural gas requirements.

The following table presents the carrying amounts and fair values of Sequa's derivative and non-derivative financial instruments:

	2005		2004	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$289,218	$289,218	$204,842	$204,842
Forward foreign exchange contracts	893	893	418	418
Liabilities				
Current and long-term debt	928,135	970,050	798,625	884,290
Forward foreign exchange contracts	397	397	2,154	2,154

The fair value of cash and cash equivalents approximates the carrying amount due to the short maturity of those instruments. The fair value of Sequa's debt is primarily based upon quoted market prices of publicly traded securities, except the $100,000,000 debt issuance with Barclays effective December 21, 2005 with variable interest rates, which issuance amount approximates fair value at December 31, 2005. The fair value of forward foreign exchange contracts and derivatives thereof is based on fair market valuations.

1.134

STANDARD MOTOR PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Instruments and Hedging Activities

The Company recognizes derivatives as either an asset or liability measured at its fair value. For derivatives that have been formally designated as a cash flow hedge (interest rate swap agreements), the effective portion of changes in the fair value of the derivatives are recorded in "accumulated other comprehensive income (loss)." Amounts in "accumulated other comprehensive income (loss)" are reclassified into earnings in the "interest expense" caption when interest expense on the underlying borrowings are recognized.

10. Interest Rate Swap Agreements

We do not enter into financial instruments for trading or speculative purposes. The principal financial instruments used for cash flow hedging purposes are interest rate swaps. We enter into interest rate swap agreements to manage our exposure to interest rate changes. The swaps effectively convert a portion of our variable rate debt under the revolving credit facility to a fixed rate, without exchanging the notional principal amounts.

In October 2003, we entered into an interest rate swap agreement with a notional amount of $25 million that is to mature in October 2006. Under this agreement, we receive a floating rate based on the LIBOR interest rate, and pay a fixed rate of 2.45% on the notional amount of $25 million. We have recorded an asset of $496,000 to recognize the fair value of interest derivatives, and we have also recorded a tax liability of $198,000 associated therewith. The net offset is recorded in accumulated other comprehensive income.

If, at any time, the swaps are determined to be ineffective, in whole or in part, due to changes in the interest rate swap or underlying debt agreements, the fair value of the portion of the interest rate swap determined to be ineffective will be recognized as gain or loss in the statement of operations in the "interest expense" caption for the applicable period. It is not expected that any gain or loss will be reported in the statement of operations during the year ending December 31, 2006, nor has any been recorded in 2005, 2004 or 2003.

18 (In Part): Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Interest Rate Swaps

The fair value of our financial instruments is based on market quotes and represents the net amount required to terminate the position, taking into consideration market rates and counterparty credit risk.

The estimated fair values of our financial instruments are as follows (in thousands):

	Carrying Amount	Fair Value
December 31, 2005		
Cash and cash equivalents	$ 14,046	$ 14,046
Trade accounts receivable	176,294	176,294
Trade accounts payable	52,535	52,535
Short term borrowings	149,236	149,236
Long-term debt	99,091	97,847
Interest rate swaps	496	496
December 31, 2004		
Cash and cash equivalents	$ 14,934	$ 14,934
Trade accounts receivable	151,352	151,352
Trade accounts payable	46,487	46,487
Short term borrowings	109,416	109,416
Long-term debt	114,770	113,554
Interest rate swaps	362	362

1.135

THE STANLEY WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Financial Instruments

Derivative financial instruments are employed to manage risks, including foreign currency and interest rate exposures, and are not used for trading or speculative purposes. The Company recognizes all derivative instruments, such as interest rate swap agreements, foreign currency options, and foreign exchange contracts, in the Consolidated Balance Sheets at fair value. Changes in the fair value of derivatives are recognized periodically either in earnings or in shareowners' equity as a component of other comprehensive income, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in earnings along with the changes in the fair value of the hedged items that relate to the hedged risk. Gains and losses on derivatives designated as cash flow hedges, to the extent they are effective, are recorded in other comprehensive income, and subsequently reclassified to earnings to offset the impact of the hedged items when they occur. In the event the forecasted transaction to which a cash flow hedge relates is no longer likely, the amount in other comprehensive income is recognized in earnings and generally the derivative is terminated. Changes in the fair value of derivatives used as hedges of the net investment in foreign operations are reported in other comprehensive income. Changes in the fair value of derivatives not qualifying as hedges, and for any portion of a hedge that is ineffective, are reported in earnings.

The net interest paid or received on interest rate swaps is recognized as interest expense. Gains resulting from the early termination of interest rate swap agreements are deferred and amortized as adjustments to interest expense over the remaining period of the debt originally covered by the terminated swap.

J. Financial Instruments

The Company's objectives in using debt related financial instruments are to obtain the lowest cost source of funds within a targeted range of variable to fixed-rate debt proportions and to minimize the foreign exchange risk of obligations. To meet these risk management objectives, the Company enters into interest rate swap and currency swap agreements. Derivative instruments are not employed for speculative purposes. Derivatives are recognized in the Consolidated Balance Sheets at fair value and hedge accounting is applied based on the criteria specified in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," whereby management designates its derivative instruments as cash flow hedges, fair value hedges or net investment hedges.

Cash Flow Hedges

Purchased currency options and foreign exchange forward contracts are used to reduce exchange risks arising from cross-border cash flows expected to occur over the next one year period. The Company also enters into forward exchange contracts and cross currency swaps to hedge intercompany activity. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. In addition, interest rate swaps are utilized to either create a floating rate or a fixed rate liability, as the Company looks to achieve the optimal mix of fixed versus floating rate debt.

At December 31, 2005 and January 1, 2005, forward contracts hedging intercompany transactions totaled $84.3 million and $78.6 million, respectively. The existing foreign exchange forward contracts are denominated in Australian Dollars, Canadian Dollars, Danish Krone, Euro, Japanese Yen, Great Britain Pound, New Zealand Dollars, South African Rand, Swiss Franc, Swedish Krona, Taiwanese Dollars and Thai Baht. The contracts mature within approximately 90 days. The aggregate fair value of these forward contracts is a $0.1 million gain that is recorded in Other Assets in the Consolidated Balance Sheet.

Interest Rate Swaps

The Company has executed interest rate swaps to exchange the floating rate rent associated with two of its major distribution centers to a fixed rent amount. In addition, the Company entered into a thirty year floating to fixed interest rate swap with a notional value of $150 million. The swap hedges the interest rate exposure associated with the underlying borrowing of $150 million of 3.5% bonds maturing November 1, 2007, which the Company intends to refinance upon maturity. At December 31, 2005, the aggregate fair value of these interest rate swaps is a net gain of $1.1 million as reflected in Other Assets in the Consolidated Balance Sheet.

In November 2005, the Company entered into interest rate swaps prior to the issuance of its Enhanced Trust Preferred Security ("ETPS") with an aggregate notional value of $300 million. These swaps were used to mitigate interest rate volatility relative to the 5 year Treasury rate by effectively fixing the ETPS 5 year rate. The interest rate swaps had original maturity dates of November 2010, which matched the end of the fixed rate ETPS term. As planned, the swaps were terminated at the time of the ETPS issuance resulting in a loss of $1.3 million, which is reflected in Accumulated Other Comprehensive Loss in the Consolidated Balance Sheet; this loss will be amortized to interest expense over a period of five years.

Cross Currency Swaps

The Company and its subsidiaries have entered into various intercompany transactions whereby the notional values were denominated in currencies (United States Dollar, Euro and Canadian Dollar) other than the functional currencies of the party executing the trade (United States Dollar and Euro). In order to better match the cash flows of its intercompany obligations with cash flows from operations, the Company entered into cross currency swaps. The swaps have an aggregate United States Dollar notional value of $319.3 million and maturity dates ranging from April 2006 to November 2010. At December 31, 2005, the aggregate fair value of the Company's cross currency swaps that were designated as cash flow hedges, was a net loss of $17.4 million as reflected in Other Liabilities in the Consolidated Balance Sheet.

For derivative instruments that are so designated at inception and qualify as cash flow hedges, the Company records the effective portions of the gain or loss on the derivative instrument in accumulated other comprehensive loss, a separate component of shareowners' equity, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. The ineffective portion of the gain or loss, if any, is immediately recognized in Other—net in the Consolidated Statements of Operations. The gains and losses recorded on these transactions are not material to the Company's Consolidated Financial Statements. The $6.4 million reported for cash flow hedge effectiveness in accumulated other comprehensive loss as of December 31, 2005 will be reclassified to earnings when the hedged transactions occur in the years 2006 through 2037. The ultimate amount recognized will vary based on fluctuations of the hedged currencies (Euro, Great Britain Pound and Canadian Dollar) through the maturity dates.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the Company recognizes the gain or loss on the derivative instrument in earnings in Other—net with the offsetting gain or loss on the hedged item also being recognized in earnings in the current period.

Cross Currency Swaps

The Company and its subsidiaries have entered into various intercompany transactions where in the notional values were denominated in currencies (United States Dollar, Euro, Japanese Yen and Great Britain Pound) other than the functional currencies of the party executing the trade (United States Dollar and Euro). In order to better match the cash flows of its intercompany obligations with cash flows from operations, the Company entered into various cross currency swaps. The swaps have an aggregate United States Dollar notional value of $328.0 million with maturity dates ranging from December 2006 to September 2010. At December 31, 2005 the aggregate fair value of the Company's cross currency swaps that were designated as fair value hedges, was a net gain of $8.0 million as reflected in Other Assets in the Consolidated Balance Sheet.

Net Investment Hedge

The Company utilizes net investment hedges to offset the translation adjustment arising from remeasuring its investment in the assets, liabilities, revenues, and expenses of its foreign subsidiaries. For derivative instruments that are designated and qualify as net investment hedges, the Company records the effective portion of the gain or loss on the derivative instrument in other comprehensive income, a separate component of shareowners' equity.

In February 2004, the Company entered into a cross currency swap with a United States Dollar notional value of $45.4 million to hedge its net investment in Great Britain Pound assets. The Company pays Great Britain Pounds and receives United States Dollars using fixed interest rates, offsetting the translation adjustment of its net investment in Great Britain Pound assets. This swap has a maturity date of February 2014. At December 31, 2005, the fair value of this currency swap was a loss of $0.8 million and is recorded in Other Liabilities in the Consolidated Balance Sheet and the loss on the net investment hedge included in other comprehensive income was $0.7 million.

Hedge Effectiveness

For forward contracts and cross currency swaps designated as cash flow or net investment hedges, the Company measures hedge effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. The ineffective portion, if any, of the hedge is recognized in earnings immediately. Hedge ineffectiveness was immaterial for 2005, 2004, and 2003.

For interest rate swaps designated as cash flow hedges, the Company measures the hedging effectiveness by offsetting the change in the variable portion of the interest rate swap with the change in the expected interest flows due to fluctuations in the LIBOR based interest rate.

The counterparties to all of the above mentioned financial instruments are major international financial institutions. The Company is exposed to credit risk for net exchanges under these agreements, but not for the notional amounts. The risk of default is considered remote.

The carrying values and fair values of the Company's financial instruments at December 31, 2005 and January 1, 2005 follow:

	2005		2004	
(Millions of dollars, (asset) liability)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt including current portion	$917.4	$912.3	$537.2	$539.6
Cash flow hedges:				
Forward contracts	(0.1)	(0.1)	(0.1)	(0.1)
Interest rate swaps	0.2	0.2	—	—
Cross currency swaps	17.4	17.4	28.7	28.7
Fair value hedges:				
Cross currency swaps	(8.0)	(8.0)	15.5	15.5
Net investment hedges:				
Cross currency swaps	0.8	0.8	3.9	3.9
Total financial instruments	$927.7	$922.6	$585.2	$587.6

Generally, the carrying value of the debt related financial instruments is included in the Consolidated Balance Sheet in long-term debt. The fair values of long-term debt instruments are estimated using discounted cash flow analysis, based on the Company's marginal borrowing rates. The fair values of foreign currency and interest rate swap agreements are based on current settlement values. The carrying amount of cash equivalents and short-term borrowings approximates fair value.

1.136

SUNOCO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Instruments

From time to time, Sunoco uses swaps, options, futures, forwards and other derivative instruments to hedge its exposure to crude oil, petroleum product, electricity and natural gas price volatility and to reduce foreign exchange risk relating to certain export sales denominated in foreign currencies. Such contracts are recognized in the consolidated balance sheets at their fair value. Changes in fair value of derivative contracts that are not hedges are recognized in income as they occur. If the derivative contracts are designated as hedges, depending on their nature, the effective portions of changes in their fair values are either offset in income against the changes in the fair values of the items being hedged or reflected initially as a separate component of shareholders' equity and subsequently recognized in income when the hedged items are recognized in income. The ineffective portions of changes in the fair values of derivative contracts designated as hedges are immediately recognized in income. Sunoco does not hold or issue derivative instruments for trading purposes.

16. Financial Instruments

The estimated fair value of financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange.

Sunoco's current assets (other than inventories and deferred income taxes) and current liabilities are financial instruments. The estimated fair values of these financial instruments approximate their carrying amounts. At December 31, 2005 and 2004, the estimated fair value of Sunoco's long-term debt was $1,317 and $1,495 million, respectively, compared to carrying amounts of $1,234 and $1,379 million, respectively. Long-term debt that is publicly traded was valued based on quoted market prices while the fair value of other debt issues was estimated by management based upon current interest rates available to Sunoco at the respective balance sheet dates for similar issues.

The Company guarantees the debt of affiliated companies and others. Due to the complexity of these guarantees and the absence of any market for these financial instruments, the Company does not believe it is practicable to estimate their fair value.

Sunoco uses swaps, options, futures, forwards and other derivative instruments for hedging purposes. Sunoco is at risk for possible changes in the market value for these derivative instruments. However, it is anticipated that such risk would be mitigated by price changes in the underlying hedged items. In addition, Sunoco is exposed to credit risk in the event of nonperformance by counterparties. Management believes this risk is negligible as its counterparties are either regulated by exchanges or are major international financial institutions or corporations with investment-grade credit ratings. Market and credit risks associated with all of Sunoco's derivative contracts are reviewed regularly by management.

Derivative instruments are used from time to time to achieve ratable pricing of crude oil purchases, to convert certain refined product sales to fixed or floating prices, to lock in what Sunoco considers to be acceptable margins for various refined products and to lock in the price of a portion of the Company's electricity and natural gas purchases or sales. In addition, Sunoco uses derivative contracts from time to time to reduce foreign exchange risk relating to certain export sales denominated in foreign currencies.

At December 31, 2005, the Company had recorded liabilities totaling $14 million for hedging losses and assets totaling $11 million for hedging gains, which represented their fair value as determined using various indices and dealer quotes. The amount of hedge ineffectiveness on derivative contracts during the 2003–2005 period was not material. Open contracts as of December 31, 2005 vary in duration but do not extend beyond 2006.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees/Indemnifications

1.137

GOODRICH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Financing Arrangements

Credit Facilities (In Part)

The Company has an outstanding contingent liability for guaranteed debt and lease payments of $2.4 million and letters of credit and bank guarantees of $47.5 million. It is not practical to obtain independent estimates of the fair values for the contingent liability for guaranteed debt and lease payments and for letters of credit.

Note 15 (In Part): Lease Commitments

At December 31, 2005, the Company had guarantees of residual values on lease obligations of $24.8 million related to corporate aircraft. The Company is obligated to either purchase or remarket the leased corporate aircraft at the end of the lease term. The residual values were established at lease inception. The lease terms mature in 2011 and 2012.

Note 18 (In Part): Supplemental Balance Sheet Information

Guarantees

The Company extends financial and product performance guarantees to third parties.

As of December 31, 2005, the following environmental remediation and indemnification and financial guarantees were outstanding:

(Dollars in millions)	Maximum Potential Payment	Carrying Amount of Liability
Environmental remediation indemnification (Note 19 "Contingencies")	No limit	$16.0
Financial guarantees:		
Debt and lease payments	$ 2.4	$ —
Residual value on leases	$ 24.8	$ —

Prior to the adoption of Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" (FIN 45), the Company accrued for costs associated with guarantees when it was probable that a liability had been incurred and the amount could be reasonably estimated. The most likely cost to be incurred was accrued based on an evaluation of currently available facts and, where no amount within a range of estimates was more likely, the minimum was accrued. Guarantees extended subsequent to the adoption of FIN 45 will be recorded at fair value.

The Company guaranteed amounts previously owed by Coltec Capital Trust with respect to $150 million of TIDES, which included $5 million of TIDES that were beneficially owned by Coltec, and guaranteed Coltec's performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. Following the spin-off of the EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and the Company's guarantee with respect to the TIDES remained the Company's obligation. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify the Company for any costs and liabilities arising under or related to the TIDES after the spin-off.

On November 28, 2005, Coltec redeemed all of the outstanding TIDES and underlying convertible subordinated debentures. The Company's guarantee of the TIDES terminated upon full payment of the redemption price of all of the TIDES, subject to reinstatement if at any time any TIDES holder must repay any sums paid to it with respect to the TIDES or the Company's guarantee.

Debt and Lease Payments

The debt and lease payments primarily represent obligations of the Company under industrial development revenue bonds to finance additions to facilities that have since been divested. Each of these obligations was assumed by a third party in connection with the Company's divestiture of the related facilities. If the assuming parties default, the Company will be liable for payment of the obligations. The industrial development revenue bonds mature in February 2008.

Residual Value on Leases

Residual value on leases relates to corporate aircraft pursuant to which the Company is obligated to either purchase or remarket the aircraft at the end of the lease term. The residual values were established at lease inception. The lease terms mature in 2011 and 2012. In December 2005, the Company terminated a production equipment lease that was maturing in January 2006 and purchased the leased assets for $26.2 million.

Note 19 (In Part): Contingencies

Environmental

The Company is subject to various domestic and international environmental laws and regulations which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

Estimates of the Company's environmental liabilities are based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities and the professional judgment of the Company's environmental specialists in consultation with outside environmental specialists, when necessary. Estimates of the Company's environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation of these sites proceed, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which it has been identified as a potentially responsible party are likely to have a material adverse effect on its financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the results of operations or cash flows in a given period.

Environmental liabilities are recorded when the liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when the Company has recommended a remedy or has committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

The Company's Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of $81.0 million and $88.5 million at December 31, 2005 and December 31, 2004, respectively. At December 31, 2005 and December 31, 2004, $18.3 million and $16.2 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as Accrued Expenses. At December 31, 2005 and December 31, 2004, $31.4 million and $29.6 million, respectively, was associated with ongoing operations and $49.6 million and $58.9 million, respectively, was associated with businesses previously disposed of or discontinued.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation in less than 30 years at all sites for which it has been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years.

Other

In connection with the divestiture of the Company's tire, vinyl and other businesses, the Company has received contractual rights of indemnification from third parties for environmental and other claims arising out of the divested businesses. Failure of these third parties to honor their indemnification obligations could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Guarantees

At December 31, 2005, the Company had an outstanding contingent liability for guarantees of debt and lease payments of $2.4 million, letters of credit and bank guarantees of $47.5 million and residual value of lease obligations of $24.8 million.

The Company guaranteed amounts previously owed by Coltec Capital Trust with respect to $150 million of TIDES, which included $5 million of TIDES that were beneficially owned by Coltec, and guaranteed Coltec's performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. Following the spin-off of the EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and the Company's guarantee with respect to the TIDES remained the Company's obligation. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify the Company for any costs and liabilities arising under or related to the TIDES after the spin-off. On November 28, 2005, Coltec redeemed all of the outstanding TIDES and underlying convertible subordinated debentures. The Company's guarantee of the TIDES terminated upon full payment of the redemption price of all of the TIDES, subject to reinstatement if at any time any TIDES holder must repay any sums paid to it with respect to the TIDES or the Company's guarantee.

1.138

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingent Liabilities

International Paper entered into an agreement in 2000 to guarantee, for a fee, an unsecured contractual credit agreement between a financial institution and an unrelated third-party customer. The guarantee, which expires in 2008, was made in exchange for a ten-year contract as the exclusive paper supplier to the customer. Both the loan from the financial institution to the customer and the Company's guarantee are unsecured. Under the terms of the guarantee, International Paper could be required to make future payments up to a maximum of $110 million if the customer were to default under the credit agreement. There is no liability recorded on International Paper's books for the guarantee. It is possible that payments may be required under this guarantee arrangement in the future, although it is uncertain how much or when such payments, if any, might be required.

In connection with sales of businesses, property, equipment, forestlands and other assets, International Paper commonly makes representations and warranties relating to such businesses or assets, and may enter into indemnification arrangements with respect to tax and environmental liabilities, breaches of representations and warranties, and other matters. Where any liabilities for such matters are probable and subject to reasonable estimation, accrued liabilities are recorded at the time of sale as a cost of the transaction.

International Paper believes that possible future unrecorded liabilities for these matters, if any, would not have a material adverse effect on its consolidated financial statements.

1.139

KNIGHT-RIDDER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

Agreements with Officers and Others

The Compensation Committee of the Board of Directors authorized us to enter into income security agreements with certain key executives designated by the Committee. Participants are entitled to receive the following, if after a change in control (as defined in the agreements), an executive's employment is terminated for any reason other than (a) death, (b) disability, (c) cause, or (d) resignation by the participant for any reason other than good reason, each as defined in the agreement:

- Lump sum cash severance payment equal to three times the greater of (i) the sum of the salary and cash bonus payable to the participant for the last full calendar year preceding the severance payment or (ii) the sum of the participant's annualized salary and the maximum cash bonus the participant could have earned for the then current calendar year.
- Three years of life insurance and health plan coverage.
- Accelerated vesting of stock issued and stock options granted, in accordance with the provisions of Knight Ridder's Employee Equity Incentive Plan.
- A gross-up payment for any excise taxes related to the above compensation.

1.140

THE KROGER CO. (JAN)

NOTES TO CONSOLIDATED FINACIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Guarantees

The Company periodically enters into real estate joint ventures in connection with the development of certain properties. The Company usually sells its interests in such partnerships upon completion of the projects. As of January 28, 2006, the Company was a partner with 50% ownership in three real estate joint ventures for which it has guaranteed approximately $11 of debt incurred by the ventures. Based on the covenants underlying this indebtedness as of January 28, 2006, it is unlikely that the Company will be responsible for repayment of these obligations.

Assignments

The Company is contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. The Company could be required to satisfy the obligations under the leases if any of the assignees are unable to fulfill their lease obligations. Due to the wide distribution of the Company's assignments among third parties, and various other remedies available, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote.

1.141

MATTEL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

Commitments

In the normal course of business, Mattel enters into contractual arrangements to obtain and protect Mattel's right to create and market certain products, and for future purchases of goods and services to ensure availability and timely delivery. Such arrangements include royalty payments pursuant to licensing agreements and commitments for future inventory purchases. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the term of the contracts. Current and future commitments for guaranteed payments reflect Mattel's focus on expanding its product lines through alliances with businesses in other industries.

Letters of Credit

1.142

HEALTH NET, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Financing Arrangements

Letters of Credit

We can obtain letters of credit in an aggregate amount of $200 million under our senior credit facility, which reduces the maximum amount available for borrowing under our senior credit facility. As of December 31, 2005 and 2004, we had secured letters of credit totaling $102.9 million and $13.2 million, respectively. In 2005, we issued letters of credit for $90.1 million to secure surety bonds obtained related to AmCareco litigation. We also have secured letters of credit for $12.8 million to guarantee workers' compensation claim payments to certain external third-party insurance companies in the event that we do not pay our portion of the workers' compensation claims. In addition, we secured a letter of credit effective January 1, 2006 in the amount of $10.0 million to cover risk of insolvency for the State of Arizona. No amounts have been drawn on any of these letters of credit. As a result of the issuance of these letters of credit, the maximum amount available for borrowing under the senior credit facility was $587.1 million as of January 1, 2006. As of December 31, 2004, no amounts were drawn on the letters of credit and the maximum amount available for borrowing under the senior credit facility was $686.8 million.

The weighted average annual interest rate on our financing arrangements was approximately 9.9%, 7.2% and 8.4% for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 12 (In Part): Commitments and Contigencies

Operating Leases and Other Purchase Obligations (In Part)

Surety Bonds

During December 2005, the Company elected to post $114.7 million of surety bonds to suspend the effect, and secure appeal, of the final judgment entered against the Company in connection with the AmCareco litigation. The surety bonds are secured by $90.1 million of irrevocable standby letters of credit (the "LC") issued under the Company's senior credit facility in favor of the issuers of the surety bonds.

Under the surety bond and LC arrangement, if the Company were to fail to pay the amount, if any, of a final judgment in connection with the AmCareco litigation following appeal, the issuers of the surety bonds would make payment in satisfaction of the judgment. The Company would, in turn, be responsible for reimbursing the issuing bank under the LC to the extent that the issuers of the surety bonds were to draw on the LC. To the extent the Company incurs liabilities as a result of the arrangements under the surety bonds or the LC, such liabilities would be included on the Company's consolidated balance sheet.

We will recognize a liability for any amounts actually funded to these surety bonds or drawn down from the letters of credit. At this time, the Company does not believe it will be required to fund or draw down any amounts related to the surety bonds or the LC. Accordingly, no liability related to the surety bonds or the LC has been recognized in the Company's financial statements as of December 31, 2005.

Sale of Receivables With Recourse

1.143

LEXMARK INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Trade Receivables

In the U.S., the company transfers a majority of its receivables to its wholly-owned subsidiary, Lexmark Receivables Corporation ("LRC"), which then may sell the receivables to an unrelated third party. The financial results of LRC are included in the company's consolidated financial results. LRC is a separate legal entity with its own separate creditors who, in a liquidation of LRC, would be entitled to be satisfied out of LRC's assets prior to any value in LRC becoming available for equity claims of the company. The company accounts for the transfers of receivables from LRC to an unrelated third party as sales transactions.

In October 2004, the company entered into an amended and restated agreement to sell a portion of its trade receivables on a limited recourse basis. The amended agreement allows for a maximum capital availability of $200.0 million under this facility. The primary purpose of the amendment was to extend the term of the facility to October 16, 2007, with required annual renewal of commitments in October 2005 and 2006. In October 2005, the facility was renewed until October 6, 2006.

This facility contains customary affirmative and negative covenants as well as specific provisions related to the quality of the accounts receivables sold. As collections reduce previously sold receivables, the company may replenish these with new receivables. The company bears a limited risk of bad debt losses on the trade receivables sold, since the company over-collateralizes the receivables sold with additional eligible receivables. The company addresses this risk of loss in its allowance for doubtful accounts. Receivables sold to the unrelated third party may not include amounts over 90 days past due or concentrations over certain limits with any one customer. At December 31, 2005 and 2004, there were no trade receivables outstanding under the facility.

Expenses incurred under this program totaling $1.0 million, $0.4 million and $0.3 million for 2005, 2004 and 2003, respectively, are included on the other expense line in the Consolidated Statements of Earnings.

1.144

SUNGARD DATA SYSTEMS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Debt and Derivative Instruments

D) Off Balance Sheet Debt—Receivables Securitization Facility

In August 2005, certain domestic subsidiaries entered into two receivables facilities, a transitional facility and a long-term facility (the "Facilities"). The Facilities provide the Company funding of up to $375 million by allowing it to sell, on a revolving basis, an undivided interest in eligible receivables, subject to the satisfaction of other customary conditions, for a period of up to six years following the Transaction.

As of December 31, 2005, all participating domestic subsidiaries have joined the long-term facility and there are no subsidiaries participating in, and no borrowings under, the transitional facility. In addition, funding available under the long-term facility was increased to $450 million. Under the long-term facility, eligible receivables are sold to third-party conduits through a wholly owned, bankruptcy remote special purpose entity that is not consolidated for financial reporting purposes. The Company continues to service the receivables and charge a monthly servicing fee at market rates. The third-party conduits are sponsored by certain lenders under the Company's senior secured credit facilities. Additional subsidiaries may become parties to the long-term facility, subject to the satisfaction of specified conditions including the completion of satisfactory due diligence. Sales of receivables under the long-term facility qualify as sales under the provisions of FASB statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 140). Accordingly, these receivables, totaling $618 million net of applicable allowances, and the corresponding borrowings, totaling $385 million, are excluded from the Company's consolidated balance sheet as of December 31, 2005. The Company's retained interest in receivables sold as of December 31, 2005 is $224 million. Expenses associated with the long-term facility totaled $19 million for the period ended December 31, 2005, of which $18 million related to the loss on sale of the receivables and discount on retained interests is recorded in other income (expense) and the remainder, representing facility and professional fees associated with the transitional facility, are recorded in interest expense in the consolidated statements of operations. The gain or loss on sale of receivables is determined at the date of transfer based upon the fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of expected cash flows. The collection period and discount rate prime rate of 7.25% at December 31, 2005) are the key assumptions used in this estimate. At December 31, 2005, neither a 10% nor a 20% adverse change in the assumed collection period or assumed discount rate would have a material impact on the Company's financial position or results of operations.

DISCLOSURES OF FAIR VALUE

1.145

ARROW ELECTRONICS, INC. (DEC)

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

1 (In Part): Summary of Significant Accounting Policies

Short-term Investments

Short-term investments, consisting primarily of high-grade debt securities including Auction Rate Securities, are classified as available-for-sale securities. The company classifies as short-term investments those investments with an original maturity of less than one year or those investments it intends to sell within one year. The carrying amount reported in the consolidated balance sheet for short-term investments approximates fair value.

Net Investment Hedge

The effective portion of the change in the fair value of the derivative designated as a net investment hedge is recorded in the foreign currency translation adjustment, which is included in the shareholders equity section, and any ineffective portion would be recorded in earnings. The company uses the hypothetical derivative method to assess the effectiveness of its net investment hedge on a quarterly basis.

Financial Instruments

The company uses various financial instruments, including derivative financial instruments, for purposes other than trading. Derivatives used as part of the company's risk management strategy are designated at inception as hedges and measured for effectiveness both at inception and on an ongoing basis. The company has also entered into interest rate swap transactions that convert certain fixed rate debt to variable rate debt, effectively hedging the change in fair value of the fixed rate debt resulting from fluctuations in interest rates. The fair value hedges and the hedged debt are adjusted to current market values through interest expense.

Investments (In Part)

All other equity investments, which consist of investments for which the company does not have the ability to exercise significant influence, are accounted for under the cost method, if private, or as available-for-sale, if public, and are included in "Other assets" in the accompanying consolidated balance sheet. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in realizable value, distributions of earnings, and additional investments. If classified as available-for-sale, the company accounts for the changes in the fair value with unrealized gains or losses reflected in the shareholders' equity section in the accompanying consolidated balance sheet in "Other". The company assesses its long-term investments accounted for as available-for-sale on a quarterly basis to determine whether declines in market value below cost are other-than-temporary. When the decline is determined to be other-than-temporary, the cost basis for the individual security is reduced and a loss is realized in the period in which it occurs. When the decline is determined to be temporary, the unrealized losses are included in the shareholders' equity section in the accompanying consolidated balance sheet in "Other". The company makes such determination based upon the quoted market price, financial condition, operating results of the investee, and the company's intent and ability to retain the investment over a period of time which would be sufficient to allow for any recovery in market value. In addition, the company assesses the following factors:

- broad economic factors impacting the investee's industry,
- publicly available forecasts for sales and earnings growth for the industry and investee, and
- the cyclical nature of the investee's industry.

The company could potentially have an impairment charge in future periods if, among other factors, the investee's future earnings differ from currently available forecasts.

3 (In Part): Investments

Investment Securities

The company has a 5% interest in WPG Holdings Co., Ltd. (formerly World Peace Industrial Co., Ltd.) ("WPG") and an 8.4% ownership interest in Marubun Corporation ("Marubun"), which are accounted for as available-for-sale securities.

The company accounts for these investments in accordance with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("Statement No. 115") and Emerging Issues Task Force ("EITF") Issue

No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". Under Statement No. 115 and EITF Issue No. 03-1, if the fair value of an investment is less than the cost basis, the company must determine if an other-than-temporary decline has occurred based on its intent and ability to hold the investment until the cost is recovered and evidence indicates that the cost of the investment is recoverable within a reasonable period of time. If the company determines that an other-than-temporary decline has occurred, the cost basis of the investment must be written down to fair value as the new cost basis and the amount of the write-down is recognized as a loss.

The fair value of the company's available-for-sale securities are as follows:

	2005		2004	
	Marubun	WPG	Marubun	WPG
Cost basis	$20,046	$10,798	$23,065	$10,798
Unrealized holding gain (loss)	12,008	(2,978)	(3,543)	766
Fair value	$32,054	$ 7,820	$19,522	$11,564

During the second quarter of 2005, in accordance with Statement No. 115 and EITF Issue No. 03-1, the company determined that an other-than-temporary decline in the fair value of Marubun had occurred based on various factors including the time period that the investment was below its cost basis and, accordingly, recorded a loss of $3,019 ($.03 per share) on the write-down of this investment.

The fair value of the WPG investment has been below the cost basis for less than twelve months. The company has concluded that an other-than-temporary decline has not occurred based upon its assessment of various factors including the broad worldwide and Asia specific economic factors and publicly available forecasts for sales and earnings growth for WPG and the industry.

During 2004, the company determined that an other-than-temporary decline in the fair value of an investment had occurred and, accordingly, recorded a loss of $1,318 ($.01 per share) on the write-down of this investment.

The fair value of these investments are included in "Other assets" in the accompanying consolidated balance sheet and the related net unrealized holding gains and losses are included in "Other" in the shareholders' equity section in the accompanying consolidated balance sheet.

6. Financial Instruments

Cross-Currency Swap

In October 2005, the company entered into a cross-currency interest rate swap, which has a maturity date of October 2010, for approximately $200,000 or €168,384 ("cross-currency swap") to hedge a portion of its net investment in euro denominated net assets and which has been designated as a net investment hedge. The cross-currency swap will also effectively convert the interest expense on $200,000 of long-term debt from U.S. dollars to euros. Based on the foreign exchange rate at December 31, 2005, the company would expect reduced interest expense of approximately $2,000 for the period from October 2005 through April 2006 (date that interest will reset). As the notional amount of the cross-currency swap is expected to equal a comparable amount of hedged net assets, no ineffectiveness is expected. The cross-currency swap had a fair value of $517 at December 31, 2005 and the related unrealized gain on the net investment hedge was recorded in the "Foreign currency translation adjustment", which is included in the shareholders' equity section in the accompanying consolidated balance sheet.

Foreign Exchange Contracts

The company enters into foreign exchange forward, option, or swap contracts (collectively, the "foreign exchange contracts") to mitigate the impact of changes in foreign currency exchange rates, primarily the euro. These contracts are executed to facilitate the hedging of foreign currency exposures resulting from inventory purchases and sales and generally have terms of no more than six months. Gains or losses on these contracts are deferred and recognized when the underlying future purchase or sale is recognized or when the corresponding asset or liability is revalued. The company does not enter into foreign exchange contracts for trading purposes. The risk of loss on a foreign exchange contract is the risk of nonperformance by the counterparties, which the company minimizes by limiting its counterparties to major financial institutions. The fair value of the foreign exchange contracts is estimated using market quotes. The notional amount of the foreign exchange contracts at December 31, 2005 and 2004 was $228,422 and $224,652, respectively. The carrying amounts, which are nominal, approximated fair value at December 31, 2005 and 2004.

Interest Rate Swaps

The company utilizes interest rate swaps in order to manage its targeted mix of fixed and floating rate debt. The fair value of the interest rate swaps are included in "Other liabilities" and the offsetting adjustment to the carrying value of the debt is included in "Long-term debt" in the accompanying consolidated balance sheet.

In June 2004, the company entered into a series of interest rate swaps (the "2004 swaps"), with an aggregate notional amount of $300,000. The 2004 swaps modify the company's interest rate exposure by effectively converting the fixed 9.15% senior notes to a floating rate based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 8.57% and 6.53% at December 31, 2005 and 2004, respectively), and a portion of the fixed 6.875% senior notes to a floating rate also based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 5.55% and 3.80% at December 31, 2005 and 2004, respectively), through their maturities. The 2004 swaps are classified as fair value hedges and had a fair value of $445 and $12,650 at December 31, 2005 and 2004, respectively.

In November 2003, the company entered into a series of interest rate swaps (the "2003 swaps"), with an aggregate notional amount of $200,000. The 2003 swaps modify the company's interest rate exposure by effectively converting the fixed 7% senior notes to a floating rate based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 7.77% and 5.81% at December 31, 2005 and 2004, respectively) through their maturities. The 2003 swaps are classified as fair value hedges and had a negative fair value of $4,053 and $746 at December 31, 2005 and 2004, respectively.

7 (In Part): Debt

Long-term debt consists of the following at December 31:

	2005	2004
7% senior notes, due 2007	$ 173,016	$ 199,480
9.15% senior notes, due 2010	199,984	199,980
6.875% senior notes, due 2013	349,491	349,423
6.875% senior debentures, due 2018	197,404	197,195
7.5% senior debentures, due 2027	197,051	196,911
Zero coupon convertible debentures	—	298,625
Cross-Currency swap, due 2010	(517)	—
Interest rate swaps	(3,608)	11,904
Ultra Source bank loan	15,072	—
Other obligations with various interest rates and due dates	11,088	12,362
	$1,138,981	$1,465,880

The 7% senior notes and the 7.5% senior debentures are not redeemable prior to their maturity. The 9.15% senior notes, 6.875% senior notes, and 6.875% senior debentures may be prepaid at the option of the company subject to "make whole" clauses.

The estimated fair market value at December 31, as a percentage of par value, is as follows:

	2005	2004
7% senior notes, due 2007	102%	106%
9.15% senior notes, due 2010	114%	121%
6.875% senior notes, due 2013	107%	110%
6.875% senior debentures, due 2018	106%	107%
7.5% senior debentures, due 2027	112%	110%
Zero coupon convertible debentures	55%	53%

The company's cross-currency swap, interest rate swaps, Ultra Source bank loan, and other obligations approximate their fair value.

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FIRST DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

The Company utilizes derivative instruments primarily to mitigate interest rate risk. The Company also enters into swap agreements to hedge the changes in fair value associated with certain of its long-term investments. To a lesser extent, derivative instruments are utilized to mitigate market and foreign currency risk. The Company recognizes all derivative financial instruments in the Consolidated Balance Sheets as assets or liabilities at fair value. Such amounts are recorded in either the "other assets" or "accounts payable and other liabilities" captions in the Consolidated Balance Sheets. Generally, changes in fair value are recognized immediately in earnings, unless the derivative qualifies as a hedge of future cash flows. For derivatives that qualify as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in stockholders' equity as a component of OCI and then recognized in earnings in the period or periods the hedged item affects earnings.

Cash and Cash Equivalents

Highly liquid investments (other than those included in settlement assets) with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents and are stated at cost, which approximates market value.

Investment Securities

A majority of the Company's settlement assets represent investments, which are primarily comprised of state and municipal governments obligations. Additionally, the Company maintains various other investments included in the "other assets" line item of the Consolidated Balance Sheets which include primarily state and municipal obligations, mortgage-backed securities and preferred stock as well as publicly-traded corporate equity securities prior to their sale during 2005. The specific identification method is used to determine the cost basis of securities sold. At December 31, 2005 and 2004, all of the Company's investments were classified as available-for-sale. Unrealized gains and losses on these investments are included as a separate component of OCI, net of any related tax effect. The Company also has investments in non-marketable equity securities for strategic purposes, which are included in "other assets" in the Company's Consolidated Balance Sheets and are carried at cost.

Declines in value that are judged to be other than temporary in nature are recognized in the Consolidated Statements of Income. For public company investments, the Company's policy is to treat a decline in the investment's quoted market value that has lasted for more than six months as an other than temporary decline in value. The Company also considers other qualitative and quantitative indicators in judging whether a decline in value is other than temporary in nature. The Company's policy is the same for investments in non-marketable equity securities; however, their fair values are estimated. In estimating fair value, market conditions, offering prices, trends of earnings/losses, price multiples, financial position, new financing and other key measures are considered. The Company believes the estimates result in a reasonable reflection of the fair values of these investments.

Note 7: Investment Securities

Investment securities are a principal component of the Company's settlement assets, and represent the investment of funds received by FDC from the sale of payment instruments (principally official checks and money orders) by authorized agents. Within settlement assets, virtually all of FDC's investment securities are debt securities, most of which have maturities greater than one year. At December 31, 2005, 49% of these debt securities mature within five years and 79% within 10 years. Realized pretax gains from the sale of these investment securities were $0.2 million for 2005, $110.4 million for 2004 and $138.2 million for 2003. The net of tax amount of the realized gains that the Company reclassified out of OCI into investment income for the years ended December 31, 2005, 2004 and 2003 were $ 0.1 million, $71.8 million and $89.8 million, respectively. The Company uses specific identification to determine the cost of a security sold and the amount of gains and losses reclassified out of OCI. The Company received proceeds from these sales of $57.3 million, $3,533.3 million, and $3,977.3 million in 2005, 2004 and 2003, respectively.

The Company also maintains various other investments many of which are classified as available-for-sale and carried at fair market value of $116.9 million at December 31, 2005 and $270.9 million at December 31, 2004. Such investments are recorded in the "other assets" line item of the Consolidated Balance Sheets and include primarily state and municipal obligations, mortgage-backed securities and preferred stock as well as the Company's investment in CheckFree Corporation common stock prior to its sale in 2004. In addition, the Company has investments in non-marketable equity securities and other investments that are carried at cost of $40.9 million and $49.5 million at December 31, 2005 and 2004, respectively, and are also recorded in the "other assets" line item of the Consolidated Balance Sheets. Realized gains and losses associated with the investments described above are recognized in the "investment gains and losses" line item of the Consolidated Statements of Income. Included in the net gains recognized in 2005 is a pretax gain of $21.4 million resulting from the sale of the Company's investment in CheckFree, net of charges to exit the related hedging instruments. See Note 3 for additional discussion pertaining to investment gains and losses as well as the write-down of investments.

The principal components of investment securities, which are carried at fair value, are as follows (in millions):

	Cost[1]	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
December 31, 2005				
State and municipal obligations	$12,315.6	$ 47.5	$(124.6)	$12,238.5
Mortgage-backed securities	61.5	—	(1.0)	60.5
Other securities:				
Investment partnerships[2]	82.9	—	—	82.9
Cost-based investments	40.9	—	—	40.9
Equity	—	1.9	—	1.9
Preferred stock	57.8	0.7	(0.3)	58.2
Total other	181.6	2.6	(0.3)	183.9
Totals	$12,558.7	$ 50.1	$(125.9)	$12,482.9
December 31, 2004				
State and municipal obligations	$11,575.3	$117.2	$ (35.8)	$11,656.7
Mortgage-backed securities	85.3	0.1	(0.6)	84.8
Other securities:				
Investment partnerships[2]	87.9	—	—	87.9
Cost-based investments	49.5	—	—	49.5
CheckFree common stock	76.5	34.5	—	111.0
Preferred stock	133.3	—	(5.7)	127.6
Total other	347.2	34.5	(5.7)	376.0
Totals	$12,007.8	$151.8	$ (42.1)	$12,117.5

(1) Represents amortized cost for debt securities.
(2) Investments in investment partnerships are accounted for under the equity method of accounting.

The following table presents the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004 (in millions):

	Less Than 12 Months		More Than 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2005						
State and municipal obligations	$5,664.6	$(58.8)	$2,524.5	$(65.8)	$8,189.1	$(124.6)
Mortgage-backed securities	16.8	(0.1)	36.0	(0.9)	52.8	(1.0)
Preferred stock	—	—	14.7	(0.3)	14.7	(0.3)
December 31, 2004						
State and municipal obligations	$3,246.5	$(33.2)	$ 139.3	$ (2.6)	$3,385.8	$ (35.8)
Mortgage-backed securities	52.4	(0.6)	—	—	52.4	(0.6)
Preferred stock	18.0	(1.7)	39.0	(4.0)	57.0	(5.7)

As of December 31, 2005 the Company's unrealized losses related to the following:

State and Municipal Obligations

The unrealized losses on the Company's investments in state and municipal obligations result from an increase in interest rates and are not related to credit quality. The unrealized losses are deemed to be not other-than-temporary because the Company has the ability and intent to hold these investments until a recovery of fair value occurs which may be upon maturity.

Mortgage-Backed Securities

The majority of the Company's investments in mortgage-backed securities are in government sponsored mortgage entities. The unrealized losses on mortgage-backed securities result from changes in interest rates and are not related to credit quality. The unrealized losses are deemed to be not other-than-temporary because the Company has the ability and intent to hold the investments until a recovery of fair value occurs which may be upon maturity.

Preferred Stock

The majority of the Company's investments in preferred stock are in government sponsored mortgage entities. The unrealized losses on preferred stock result primarily from the illiquidity of such investments and a decline in interest rates and are not related to credit quality. Analysis of the unrealized losses performed during 2005 and 2004 indicated other-than-temporary impairments on a portion of the Company's investments, resulting in impairment charges of $5.6 million and $4.1 million, respectively.

Note 8 (In Part): Nonderivative and Derivative Financial Instruments

Nonderivative Financial Instruments (In Part)

Management of Nonderivative Financial Instrument Risks

FDC does not hold or issue financial instruments for trading purposes. FDC encounters credit and market risks related to the Company's financial instruments, principally its investment securities. The Company attempts to mitigate credit risk by making high-quality investments. Substantially all of its long-term debt investment securities have credit ratings of "AA" or better from a major rating agency. FDC maintains a large portion of its settlement assets in cash and cash equivalents, thereby mitigating market risks (such as a reduction in the fair value of long-term investment securities due to rising interest rates) that could impact the Company's funding of its settlement obligations.

Fair Value of Financial Instruments

Carrying amounts for certain of FDC's financial instruments (cash and cash equivalents and short-term borrowings) approximate fair value due to their short maturities. Accordingly, these instruments are not presented in the following table. The following table provides the estimated fair values of certain nonderivative financial instruments and derivative financial instruments (in millions):

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments:				
Long-term investment securities	$12,119.6	$12,119.6	$11,771.9	$11,771.9
Long-term debt	3,962.0	3,954.3	3,703.0	3,803.4
Derivative financial instruments:				
Interest rate swaps related to commissions payable, net	$ (98.1)	$ (98.1)	$ (241.0)	$ (241.0)
Interest rate swaps related to certain long-term investments securities, net	(2.5)	(2.5)	(27.0)	(27.0)
Interest rate swaps related to fixed rate debt	(71.1)	(71.1)	2.9	2.9
Foreign currency forward contracts	16.1	16.1	(33.3)	(33.3)
Costless collars used to hedge investment in certain equity securities	—	—	(13.2)	(13.2)
Foreign currency swaps related to net investments in foreign entities	(10.3)	(10.3)	(56.1)	(56.1)

The estimated fair value of nonderivative financial instruments is based primarily on market quotations whereas the estimated fair value of derivative financial instruments is based on market and/or dealer quotations. Accordingly, these estimated values may not be representative of actual values that could have been realized as of the year-end dates or that will be realized in the future.

Derivative Financial Instruments

Accounting for Derivative Instruments and Hedging Activities

The Company utilizes certain derivative financial instruments to enhance its ability to manage risks that exist as part of its ongoing business operations. The Company recognizes all derivatives in the "other assets" and "accounts payable and other liabilities" captions in the Consolidated Balance Sheets at their fair value. The estimated fair value of the derivatives is based on market and/or dealer quotations.

The Company presently uses derivative instruments to mitigate cash flow risks with respect to forecasted transactions (commission payments) and changes in foreign currency rates (transactions denominated in foreign currency). Furthermore, the Company uses derivative instruments to mitigate fair value risk related to changes in interest rates (long-term investments and fixed rate long-term debt). The Company also uses derivative instruments to protect the initial net investment in certain foreign subsidiaries and/or affiliates.

On the date the derivative instrument is entered into, the Company designates the derivative as a cash flow hedge, a fair value hedge or a hedge of a net investment depending on the asset, liability, forecasted transaction or net investment being hedged. Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are generally recorded in OCI and reclassified into earnings in the same period or periods the hedged transaction affects earnings. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge are generally recorded immediately in earnings along with the corresponding change in fair value of the hedged item. Changes in the fair value of a net investment hedge are recorded in OCI.

The Company formally documents all relationships between hedging instruments and the underlying hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions or fair value hedges to the related underlying instrument. The Company also formally assesses, both at inception of the hedge, and on an ongoing basis, whether the hedge is highly effective in offsetting changes in cash flows or fair value of the underlying hedged items. The Company also performs an assessment of the probability of the forecasted transaction on a periodic basis. If it is determined that a derivative is not highly effective at inception, or it ceases to be highly effective during the term of the hedge or if the forecasted transaction is no longer probable, the Company will discontinue hedge accounting prospectively for such derivative.

At December 31, 2005 and 2004, the Company had foreign currency spot and forward contracts relating to settlement activities in its money transfer business. These derivative instruments are short-term, generally less than two weeks, and mitigate the Company's foreign currency risk relating to the receipt and payment of the notional amount of money transfers. Due to the short-term exposure, the Company does not designate such derivatives as a hedge. Accordingly, any changes in fair value are recognized immediately in the Consolidated Statements of Income. Other than these contracts, the Company does not have any derivative instruments that were not designated as and effective as a hedge at December 31, 2005 or 2004.

Risk Management Objectives and Strategies

The Company is exposed to various financial and market risks, including those related to changes in interest rates and foreign currency rates that exist as part of its ongoing business operations. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company applies strict policies to manage each of these risks, including prohibition against derivatives trading, derivatives market-making or any other speculative activities.

The Company's policy is to minimize its cash flow, fair value and net investment exposures related to adverse changes in interest rates and foreign currency exchange rates. The Company's objective is to engage in risk management strategies that provide adequate downside protection.

Hedge of a Net Investment in a Foreign Operation

Periodically the Company acquires an international entity or an ownership in certain entities. In connection with such investments, the Company generally enters into net investment hedges. Net investment hedges are hedges that use derivative contracts to hedge the foreign currency exposure of a net investment in a foreign operation. The Company manages currency exposures that result from net investments in affiliates principally by funding assets denominated in local currency with debt denominated in that same currency and entering into a cross-currency swap.

A cross-currency swap involves the Company exchanging a notional amount of U.S. dollars for an equal notional amount of currency in which the investment is made at initial and final settlement. The company pays a fixed rate of interest in the currency in which the investment is made and receives a fixed rate of interest in U.S. dollars.

The aggregate notional amount of the Australian dollar cross currency swaps was 230.0 million Australian dollars at December 31, 2005 and December 31, 2004. The aggregate notional amounts of the euro cross currency swaps were 492.5 million euros at December 31, 2005 and 261.0 million euros at December 31, 2004. The aggregate notional amount of the yen cross currency swap was 375.0 million yen at December 31, 2005 and December 31, 2004. Changes in the fair value of these cross currency swaps are recognized in OCI. The Company uses the forward rate to measure the ineffectiveness of our net investment hedges. Since both the notional amount of the derivative designated as a hedge of a net investment in a foreign operation equals the portion of the net investment designated as being hedged and the derivative's underlying relates solely to the foreign exchange rate between the functional currency of the hedged net investment and the US dollar, no hedge ineffectiveness is recognized in earnings. All changes in the fair value of these cross currency swaps are recognized in OCI. The amount the Company realized in OCI for the year ended December 31, 2005 offsetting the foreign currency translation gains was $6.7 million.

Cash Flow Hedges

Interest Rate Derivatives

A portion of the Company's Payment Services business involves the payment of commissions to selling agents that are computed based on short-term interest rates. This commission payable to a selling agent is computed by multiplying the month's average daily float (settlement obligation) for that agent by a short-term variable rate (based on three month LIBOR, one month LIBOR, three month T-Bill, or Fed Funds as is applicable to that agent). The commission rates reset following standard market convention reset frequency for each.

The Company hedges the commission payment obligation (cash flows) by entering into interest rate swap contracts in which FDC pays a fixed rate in exchange for receiving a variable cash flow from the counterparty that specifically matches the underlying index used to calculate the commission payment obligation. A majority of the commission payment obligations are based on either three month T-Bill rate or Fed Funds rate. As a result, the swaps generally require FDC to make a payment to the swap counterparty based on a contractually stated fixed rate in exchange for a variable payment based on the three month T-Bill rate and to a lesser extent the Fed Funds rate.

For the benchmark interest rate hedges (three month T-Bill rate), the Company relies on the critical terms matching approach to determine that the hedge is effective. Since at inception and throughout the term of the interest rate swap the critical terms match, no ineffectiveness arises. Accordingly, changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with floating rate commission payment obligations are reported in OCI. The amounts subsequently are reclassified into the "investment income" line item of the Consolidated Statements of Income in the same period in which the commissions are paid.

In circumstances where the Company hedges commissions based on the Fed Funds rate with a spread (a non-benchmark interest rate), the Company uses the change in variable cash flows method for measuring hedge ineffectiveness on an ongoing basis (at least quarterly). The amount of ineffectiveness was immaterial at December 31, 2005 and 2004.

The aggregate notional amount of these interest rate swap agreements was $5.4 billion and $5.9 billion at December 31, 2005 and 2004, respectively. The notional amount represents the commissionable balance on which the commissions are paid, hedged by these interest rate swaps.

As of December 31, 2005, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows associated with interest rate risk is 12 years. More than 88% of these interest rate swaps expire in seven years or less. During the year ending December 31, 2006, approximately $9 million of losses in OCI related to the interest rate swaps are expected to be reclassified into the "investment income" line item of the Consolidated Statements of Income.

Foreign Currency Derivatives

The Company's cash flows are exposed to foreign currency risk from transactions denominated in foreign currencies, primarily the euro, British pound, Canadian dollar and the Swiss franc. The Company utilizes foreign currency forward contracts, which qualify and are designated as cash flow hedges to mitigate some of this risk. Gains and losses on the derivatives are intended to offset losses and gains on the hedged transactions (forecasted sales primarily for one year) in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

The following table provides the aggregate notional amount of the Company's forward sale contracts. The notional amount represents the portion of forecasted foreign currency denominated revenues hedged by forward contracts.

(In millions)	2005	2004
Swiss franc	18.2	—
Euro	243.0	219.7
British pound	27.7	26.7
Canadian dollar	50.7	48.6

Since the critical terms of the forward contracts and the hedged transactions are the same, the amount of ineffectiveness relating to these cash flow hedges is immaterial. Changes in the fair value of the forward contracts designated as hedging instruments of the variability of cash flows associated with foreign currency risk are reported in OCI. These amounts subsequently are reclassified into revenue or expense in the same period in which the foreign currency transaction occurs. As of December 31, 2005, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows associated with foreign currency risk is five years for revenues, although over 97% of the aggregate notional amount expires within one year. During the year ending December 31, 2006, approximately $15.7 million of losses in OCI related to the options and forward contracts are expected to be reclassified into the "transaction and processing service fees" line item of the Consolidated Statements of Income.

Other Cash Flow Hedges

During 2005, the Company sold its investment in CheckFree Corporation common stock. The Company previously entered into costless collars to hedge the anticipated future cash flows related to a portion of this investment. Based upon the Company's intent to sell the underlying shares upon the maturities of the collars, the collars qualified, and were designated, as cash flow hedges. Since the critical terms of the costless collars matched the critical terms of the investment, any mark-to-market changes in the underlying shares were recorded as an adjustment to OCI. A costless collar involves the sale of a call option on a specified number of shares in the investment combined with the purchase of a put option on the same number of shares.

The fair value of the underlying shares subject to the costless collars was $111.0 million as compared with the aggregate put value of $78.3 million at December 31, 2004. Upon the sale of the Company's investment in CheckFree Corporation, the costless collars were terminated and all amounts recorded in OCI were recognized in the "investment gains and losses" line item of the Consolidated Statements of Income.

Fair Value Hedges

Interest Rate Swaps

From time to time, the Company enters into certain interest rate swap agreements to hedge the exposure of changes in fair value resulting from certain fixed rate debt. Under these agreements, the Company exchanges fixed rate interest payments to floating rate interest payments on certain of its debt.

Since the critical terms of the interest rate swap match the critical terms of the hedged item (debt) changes in the fair value of the interest rate swap will offset changes in the fair value of the debt. Accordingly, there is no ineffectiveness related to these interest rate swaps. The aggregate notional amount of these interest rate swaps was $3.2 billion and $2.4 billion at December 31, 2005 and 2004, respectively.

During 2005 and 2004, the Company entered into certain interest rate swap agreements to hedge the exposure of changes in fair value related to a portion of its long-term portfolio investments. The portfolio supports the outstanding payment instruments. The Company categorizes these investments as available for sale and has from time to time sold certain of these investments. Therefore, the Company is exposed to changes in the fair value of the investments as a result of changes in interest rates, which is the specific risk being hedged using benchmark interest rates. Changes in the fair value of the interest rate swaps will offset changes in the fair value of the investments. Accordingly, there is no ineffectiveness related to these interest rate swaps. The aggregate notional amount of these interest rate swaps was $2.2 billion and $1.4 billion at December 31, 2005 and 2004, respectively.

Note 13 (In Part): Commitments and Contingencies

The Company leases certain of its facilities and equipment under operating lease agreements, substantially all of which contain renewal options and escalation provisions. Total rent expense for operating leases was $111.7 million in 2005, $127.8 million in 2004, and $134.8 million in 2003.

Future minimum aggregate rental commitments at December 31, 2005 under all noncancelable leases, net of sublease income, were $288.1 million and are due in the following years: $83.6 million for 2006, $65.5 million for 2007, $48.2 million for 2008, $31.0 million for 2009, $18.8 million for 2010, and $41.0 million thereafter.

The sublease income is earned from leased space, which FDC concurrently subleases to its customers with comparable time periods. Certain future lease rental income exceeds lease payments, and was excluded from the rental commitment amounts above. At December 31, 2005, these amounts totaled $4.8 million in FDC obligations. The Company has guaranteed residual values aggregating $191.9 million related to synthetic operating leases.

In addition, the Company has certain guarantees imbedded in leases and other agreements wherein the Company is required to relieve the counterparty in the event of changes in the tax code or rates. The Company believes the fair value of such guarantees is insignificant due to the likelihood and extent of the potential changes.

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LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash Equivalents and Short-Term Investments

All investments purchased with an original maturity of three months or less are considered to be cash equivalents. All of the Company's short-term investments are classified as available-for-sale at the respective balance sheet dates. The Company accounts for its investment portfolio at fair value. The investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and any material temporary difference between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income (loss.) The specific identification method is used to determine the realized gains and losses on investments.

Derivative Financial Instruments

The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The Company has a policy that allows the use of derivative financial instruments, specifically foreign currency forward exchange rate contracts, to hedge foreign currency exchange rate fluctuations on forecasted revenue transactions denominated in Japanese Yen and other foreign currency denominated assets. The Company does not use derivatives for trading or speculative purposes.

The Company's policy is to attempt to minimize short-term business exposure to foreign currency exchange rate risks using an effective and efficient method to eliminate or reduce such exposures. In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. To protect against the reduction in value of forecasted Japanese Yen-denominated revenues, the Company has instituted a foreign currency cash flow hedging program. The Company enters into foreign currency forward exchange rate contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward exchange contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in earnings in the same period the hedged revenue is recognized. Each period, hedges are tested for effectiveness by comparing the change in value of the derivative with the change in the value of the anticipated sales transactions. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured.

When derivative instruments are designated and qualify as effective hedges of identified fair value exposures, the Company is able to offset changes in the fair value of the identified exposures by changes in the fair value of the hedging instruments. When derivative instruments are designated and qualify as effective cash flow hedges, the Company is able to defer changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that forecasted transactions would occur, the Company may not be able to account for its investments in derivative instruments as hedges. If this were to occur in a future period, changes in the fair values of the Company's derivative instruments would be recognized in operations without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment.

The Company also enters into foreign currency forward exchange rate contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated receivable balances. Under SFAS No. 133, these forward contracts are not designated accounting hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income and expense and offsets the change in fair value of the foreign currency denominated intercompany and trade receivables assuming the hedge contract fully covers the intercompany and trade receivable balances.

To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and practical. These forward contracts are valued using standard valuation formulas with assumptions about future foreign currency exchange rates derived from existing exchange rates and interest rates observed in the market.

The Company considers its most current outlook in determining the level of foreign currency denominated intercompany revenues to hedge. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. The revenues are hedged for exposures to fluctuations in foreign currency exchange rates. Should the level of revenues expected not occur, the Company's investments in derivatives used to hedge changes in foreign currency exchange rates may not qualify for hedge accounting.

The Company does not believe that it is or was exposed to more than a nominal amount of credit risk in its interest rate and foreign currency hedges, as counterparties are established and well-capitalized financial institutions. The Company's exposures are in liquid currencies (Japanese Yen), so there is minimal risk that appropriate derivatives to maintain the Company's hedging program would not be available in the future.

Note 4 (In Part): Financial Instruments

Investments at June 26, 2005 and June 27, 2004 consist of the following:

	2005				2004			
(In thousands)	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale:								
Institutional money market funds	$366,672	$ —	$ —	$366.672	$ 57,739	$ —	$ —	$ 57,739
Securities held with original maturities less than or equal to 90 days	11,511	—	—	11,511	—	—	—	—
Amounts included in cash and cash equivalents	378,183	—	—	378,183	57,739	—	—	57,739
Auction rate notes and preferred stock	—	—	—	—	4,998	2	—	5,000
Municipal bonds and notes	102,118	84	(686)	101,516	104,324	193	(732)	103,785
Treasury and agency notes	50,362	27	(322)	50,067	83,515	98	(859)	82,754
Bank and corporate notes	176,366	125	(1,071)	175,420	57,384	51	(639)	56,796
International—US$ denominated	—	—	—	—	17,786	7	(59)	17,734
Amounts included in short-term investments	328,846	236	(2,079)	327,003	268,007	351	(2,289)	266,069
Institutional money market funds	85,038	—	—	85,038	112,468	—	—	112,468
Amounts included in restricted cash	85,038	—	—	85,038	112,468	—	—	112,468
Total available-for-sale	$792,067	$236	$(2,079)	$790,224	$438,214	$351	$(2,289)	$436,276

The Company accounts for its investment portfolio at fair value. Realized gains and (losses) from investments sold were approximately $0.1 million and ($0.9) million in fiscal year 2005 and approximately $0.2 million and ($0.3) million in fiscal year 2004. Realized gains and (losses) for investments sold are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. The fair value of the Company's investments in auction rate preferred securities is based upon par value, which approximates fair value due to the nature of the instruments.

The Company's available-for-sale securities are invested in financial instruments with a minimum rating of A2/A, as rated by two of the following three rating agencies: Moody's. Standard & Poor's (S&P), or Fitch.

The amortized cost and fair value of investments in debt securities with contractual maturities is as follows:

	2005		2004	
(In thousands)	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in less than one year	$631,200	$630,596	$229,963	$229,773
Due one year through five years	160,867	159,628	203,253	201,503
Total investments in debt securities	$792,067	$790,224	$433,216	$431,276

Management has the ability and intent, if necessary, to liquidate any of its investments in order to meet the Company's liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase have been classified as short-term on the accompanying consolidated balance sheets.

Note 5: Derivative Financial Instruments and Hedging

The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). See Note 2 for information on the Company's policies with respect to derivative financial instruments and hedging. The Company does not use derivatives for trading or speculative purposes.

To protect against the reduction in value of forecasted Japanese Yen-denominated revenues, the Company has instituted a foreign currency cash flow hedging program. The Company enters into foreign currency forward exchange rate contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward exchange contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in earnings in the same period the hedged revenue is recognized. Each period, hedges are tested for effectiveness by comparing the change in value of the derivative with the change in the value of the anticipated sales transactions. There were no gains or losses during fiscal year 2005 associated with forecasted transactions that failed to occur. A net gain of $0.3 million for fiscal year 2004 was recognized in Other Income and Expense associated with cash flow hedges where the original forecasted transactions did not occur within the specified hedge period.

At June 26, 2005, the Company expects to reclassify the entire amount of $0.8 million accumulated in other comprehensive income to earnings during the next 12 months due to the recognition in earnings of the hedged forecasted transactions.

The Company also enters into foreign currency forward exchange rate contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated receivable balances. Under SFAS No. 133, these forward contracts are not designated hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income and offsets the change in fair value of the foreign currency denominated intercompany and trade receivables assuming the hedge contract fully covers the intercompany and trade receivable balances.

1.148

PRAXAIR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Financial Instruments

Praxair enters into various derivative financial instruments to manage its exposure to fluctuating interest and currency exchange rates and energy costs. Such instruments primarily include interest-rate swap agreements; currency swap; forward contracts; and commodity-swap agreements. These instruments are not entered into for trading purposes. Praxair only uses commonly traded and nonleveraged instruments. There are two types of derivatives the company enters into: hedges of fair-value exposures and hedges of cash-flow exposures. Fair-value exposures relate to recognized assets or liabilities, and firm commitments; while cash-flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions.

When a derivative is executed and hedge accounting is appropriate, it is designated as either a fair-value hedge or a cash-flow hedge. Currently, Praxair designates all interest-rate and commodity-swap agreements as hedges; however, currency contracts are generally not designated as hedges for accounting purposes. All derivatives are linked to an appropriate underlying exposure. On an ongoing basis, the company assesses the hedge effectiveness of all derivatives designated as hedges to determine if they continue to be highly effective in offsetting changes in fair values or cash flows of the underlying hedged items. If it is determined that the hedge is not highly effective, then hedge accounting will be discontinued prospectively.

Changes in the fair value of derivatives designated as fair-value hedges are recognized in earnings as an offset to the change in the fair values of the exposures being hedged. The changes in fair value of derivatives that are designated as cash-flow hedges are deferred in Accumulated other comprehensive income (loss) and are recognized in earnings as the underlying hedged transaction occurs. Any ineffectiveness is recognized in earnings immediately. Derivatives that are entered into for risk-management purposes and are not designated as hedges (primarily related to anticipated net income and currency derivatives other than for firm commitments) are recorded at their fair market values and recognized in current earnings.

The company recognizes the changes in the fair value associated with currency contracts as follows: hedges of debt instruments are recorded in Interest expense and generally offset the underlying hedged items; hedges of other balance-sheet exposures, commodity contracts, forecasted transactions, lease obligations, firm commitments and anticipated future net income are recognized in Other income (expenses)—net and generally offset the underlying hedged items; and hedges of net investments in foreign subsidiaries are recognized in the cumulative translation adjustment component of Accumulated other comprehensive income (loss) on the consolidated balance sheet to offset translation gains and losses associated with the hedged net investment.

Praxair uses the following methods and assumptions to estimate the fair value of each class of financial instrument. The fair value of interest-rate swaps and currency-exchange contracts is estimated based on market prices obtained from independent dealer or market quotes. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues. Due to their nature, the carrying value of cash, short-term investments and short-term debt, receivables and payables approximates fair value.

13 (In Part): Debt

The following is a summary of Praxair's outstanding debt at December 31, 2005 and 2004:

(Millions of dollars)	2005	2004
Short-term		
Commercial paper and U.S. bank borrowings	$ —	$ 296
Canadian borrowings	91	83
South American borrowings	32	39
Asian borrowings	95	29
Other international borrowings	13	7
Total short-term debt	231	454
Long-term		
U.S. Borrowings		
6.85% Notes due 2005	—	150
6.90% Notes due 2006	250	250
4.75% Notes due 2007[a]	250	249
6.625% Notes due 2007	250	250
6.50% Notes due 2008	250	250
2.75% Notes due 2008[a]	299	299
6.375% Notes due 2012[a,b]	529	534
3.95% Notes due 2013[a]	349	349
Other borrowings	9	23
European borrowings[c]	786	613
Canadian borrowings[c]	140	—
South American borrowings	54	48
Asian borrowings	34	39
Other international borrowings	4	5
Obligations under capital lease	12	12
	3,216	3,071
Less: current portion of long-term debt	(290)	(195)
Total long-term debt	2,926	2,876
Total debt	$3,447	$3,525

[a] Amounts are net of unamortized discounts.
[b] December 31, 2005 and 2004 include a $30 million and $35 million fair value increase, respectively, related to SFAS 133 hedge accounting (see Note 14).
[c] Classified as long-term because of the company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of the respective agreements.

At December 31, 2005, the estimated fair value of Praxair's longterm debt portfolio was $3,176 million versus a carrying value of $3,216 million. At December 31, 2004, the estimated fair value of Praxair's long-term debt portfolio was $3,176 million versus a carrying value of $3,071 million. These differences are attributable to interest-rate changes subsequent to when the debt was issued.

14. Financial Instruments

The following table is a summary of the notional amount of currency derivatives outstanding at December 31, 2005 and 2004 (all maturities within one year):

(Millions of dollars)	2005	2004
Currency contracts		
Balance sheet items	$749	$679
Anticipated net income	12	—
Forecasted transactions	7	—
	$768	$679

At December 31, 2005, the fair value of all derivative contracts has been recorded in the consolidated balance sheet as $6 million in current liabilities ($11 million in current assets at December 31, 2004). There were no interest-rate derivatives outstanding at December 31, 2005 or 2004.

Currency Contracts

Praxair enters into currency exchange forward contracts to manage its exposure to fluctuations in foreign-currency exchange rates. Hedges of balance-sheet items are related to recorded balance-sheet exposures, including intercompany transactions. Hedges of forecasted transactions are for the purchase of equipment related to in-progress construction projects and have been designated as hedges for accounting purposes. The impact of the hedges of forecasted transactions will not be significant. Additionally, at December 31, 2005, there was $104 million of notional value of currency-exchange contracts that effectively offset ($14 million at December 31, 2004).

The net-income hedges outstanding at December 31, 2005 were related to anticipated net income in South America which settled on January 2, 2006. There were no net-income hedges outstanding at December 31, 2004. The amounts recorded in Other income (expenses)—net as a result of net-income hedging contracts included a loss of $5 million, $2 million and $9 million in 2005, 2004 and 2003, respectively.

Counterparties to currency-exchange forward contracts are primarily major banking institutions with credit ratings of investment grade or better and no collateral is required. There are no significant risk concentrations. Management believes the risk of incurring losses on derivative contracts related to credit risk is remote and any losses would be immaterial.

Interest Rate Swaps

There were no interest rate swap agreements outstanding at December 31, 2005 and 2004, respectively.

During 2002, Praxair entered into and terminated $500 million notional amount of interest-rate swap agreements that effectively converted fixed-rate interest to variable-rate interest on the $500 million 6.375% notes that mature in April 2012. The termination resulted in a cash gain of $47 million, which Praxair recognized in earnings and was equally offset with a charge to earnings for the changes in the fair value of the underlying debt instrument. This debt increase of $47 million is being recognized in earnings as a reduction to interest expense over the remaining term of the underlying debt, or about ten years. For the year ended December 31, 2005, $5 million was recognized in earnings as a reduction to interest expense ($5 million during each of the years ended December 31, 2004 and 2003) and $30 million remains unrecognized at December 31, 2005 ($35 million at December 31, 2004).

CONCENTRATIONS OF CREDIT RISK

1.149

ACUITY BRANDS, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentrations of Credit Risk

Concentrations of credit risk with respect to receivables, which are typically unsecured, are generally limited due to the wide variety of customers and markets using Acuity Brands' products, as well as their dispersion across many different geographic areas. Receivables from The Home Depot were approximately $60.2 million and $55.5 million at August 31, 2005 and 2004, respectively. No other single customer accounted for more than 10% of consolidated receivables at August 31, 2005. Additionally, The Home Depot accounted for approximately 13% and 12% of the net sales of Acuity Brands in fiscal years 2005 and 2004, respectively.

1.150

MONSANTO COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Trade Receivables

The following table displays a roll forward of the allowance for doubtful trade receivables for the year ended Dec. 31, 2002, the eight months ended Aug. 31, 2003, and fiscal years 2004 and 2005.

(Dollars in millions)	
Balance Jan. 1, 2002	$ 177
Additions—charged to expense[(1)]	208
Deductions	(138)
Balance Dec. 31, 2002	$ 247
Additions—charged to expense[(1)]	40
Deductions	(33)
Balance Aug. 31, 2003	$ 254
Additions—charged to expense	106
Deductions	(110)
Balance Aug. 31, 2004	$ 250
Additions—charged to expense	67
Deductions	(42)
Balance Aug. 31, 2005	$ 275

(1) Bad-debt expense related to continuing operations was recorded in operating expenses and bad-debt expense related to the environmental technologies businesses was recorded in discontinued operations.

In fiscal year 2004, Monsanto increased its allowance for doubtful trade receivables by approximately $45 million for exposures related to potentially uncollectible Argentine accounts receivable. The increase in deductions for fiscal 2004 is also primarily attributable to Argentine trade receivables. In the second quarter of calendar year 2002, Monsanto increased its allowance for doubtful trade receivables by $154 million pretax for estimated uncollectible trade receivables in Argentina, all of which has been written off as of Aug. 31, 2004. See Note 23—Commitments and Contingencies—for further discussion of trade receivables in Argentina and Brazil.

Note 14 (In Part): Financial Instruments

Credit Risk Management

Monsanto invests its excess cash in deposits with major banks throughout the world and in high-quality short-term debt instruments. Such investments are made only in instruments issued or enhanced by high-quality institutions. As of Aug. 31, 2005, the company had no financial instruments that represented a significant concentration of credit risk. Limited amounts are invested in any single institution to minimize risk. The company has not incurred any credit risk losses related to those investments.

The company sells a broad range of agricultural products to a diverse group of customers throughout the world. In the United States, the company makes substantial sales to a relatively few large wholesale customers. The company's agricultural products business is highly seasonal, and it is subject to weather conditions that affect commodity prices and seed yields. Credit limits, ongoing credit evaluation, and account monitoring procedures are used to minimize the risk of loss. Collateral is secured when it is deemed appropriate by the company. For example, in Latin America, the company collects payments on certain customer accounts in grain.

Monsanto regularly evaluates its business practices to minimize its credit risk. During fiscal year 2005, the company engaged multiple banks in Argentina and Brazil in the development of new customer financing options that involve direct bank financing of customer purchases. In addition, Monsanto piloted a new customer financing program in Brazil that allows select customers to access direct financing from banks. See Note 23—Commitments and Contingencies—for further discussion of trade receivables in Argentina and Brazil.

Note 23 (In Part): Commitments and Contingencies

Customer Concentrations in Gross Trade Receivables

The following table sets forth Monsanto's gross trade receivables as of Aug. 31, 2005, and Aug. 31, 2004, by significant customer concentrations:

(Dollars in millions)	2005	2004
U.S. agricultural product distributors	$ 483	$ 709
European agricultural product distributors	357	342
Argentina[(1)]	149	182
Brazil[(1)]	364	281
Mexico[(1)]	77	73
Asia-Pacific[(1)]	103	89
Canada[(1)]	95	115
Other	120	122
Gross trade receivables	1,748	1,913
Less: Allowance for doubtful accounts	(275)	(250)
Net trade receivables	$1,473	$1,663

(1) Represents customer receivables within the specified geography.

In fiscal year 2005, trade receivables decreased primarily because of improvements in U.S. collections as more customers prepaid or chose not to take advantage of extended terms in fiscal 2005, which was partially attributable to a stronger agriculture economy. For further details on the allowance for doubtful trade receivables, see Note 7—Trade Receivables. The company's receivables focus continues to be on the key agricultural markets of Argentina and Brazil. Net trade receivables in Argentina and Brazil were as follows:

(Dollars in millions)	2005	2004
Argentina	$ 92	$117
Brazil	271	228

As a result of the economic crisis and related reforms in Argentina throughout 2002 and the devaluation of the Argentine peso, Monsanto established an allowance of $154 million pretax in the second quarter of calendar year 2002 for estimated uncollectible receivables in Argentina. As of Aug. 31, 2004, the related receivables were fully written off. In fiscal year 2004, the allowance for doubtful trade receivables was increased by $45 million for potential uncollectible Argentine accounts receivable as the redesign of the Argentine business model, coupled with the continued economic and business challenges, led to increased credit exposure. The company continues to pursue customer collections aggressively to minimize exposure. Management's current assessment of the situation is that the allowance balance for Argentine receivables is adequate.

In fiscal year 2005, Brazil experienced drought conditions in some regions, including the regions where Monanto has been focusing on point-of-delivery payment system collection efforts. Also, the combination of lower commodity prices and the appreciation of the Brazilian real affected some of our customers' liquidity in several other Brazilian regions, which resulted in increases in past-due trade receivables and the related allowance for doubtful trade receivables as of Aug. 31, 2005, compared with those as of Aug. 31, 2004. The company took action to mitigate these credit risks in 2005, including increasing the allowance for doubtful trade receivables by $12 million, and will continue to carefully monitor Brazilian trade receivables in 2006.

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ROCKWELL COLLINS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Concentration of Risks

The Company's products and services are concentrated within the aerospace and defense industries with customers consisting primarily of commercial and military aircraft manufacturers, commercial airlines, and the United States and foreign governments. As a result of this industry focus, the Company's current and future financial performance is largely dependent upon the overall economic conditions within these industries. In particular, the commercial aerospace market has been historically cyclical and subject to downturns during periods of weak economic conditions which could be prompted by or exacerbated by political or other domestic or international events. The defense market may be affected by changes in budget appropriations, procurement policies, political developments both domestically and abroad, and other factors. While management believes the Company's product offerings are well positioned to meet the needs of its customer base, any material deterioration in the economic and environmental factors that impact the aerospace and defense industries could have a material adverse effect on the Company's results of operations, financial position or cash flows.

In addition to the overall business risks associated with the Company's concentration within the aerospace and defense industries, the Company is also exposed to a concentration of collection risk on credit extended to commercial airlines. Accounts receivable due from U.S. and international commercial airlines at September 30, 2005 was approximately $37 million and $138 million, respectively. As of September 30, 2005, accounts receivable from international commercial airlines includes $36 million of payments withheld by a customer due to performance related matters on an in-flight entertainment contract. The Company expects these performance matters will be remedied and the past due receivable balance will be paid during fiscal 2006. The Company performs ongoing credit evaluations on the financial condition of all of its commercial airline customers and maintains allowances for uncollectible accounts receivable based on expected collectibility. Although management believes its allowances are adequate, the Company is not able to predict with certainty the changes in the financial stability of its customers. Any material change in the financial status of any one or group of customers could have a material adverse effect on the Company's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

1.152 Events or transactions which occur subsequent to the balance sheet date but prior to the issuance of the financial statements and which have a material effect on the financial statements should be either recorded or disclosed in the financial statements. SAS. No. 1, section 560, *Subsequent Events,* as amended by SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, sets forth criteria for the proper treatment of subsequent events. Table 1-14 lists the subsequent events disclosed in the financial statements of the survey companies.

1.153 Examples of subsequent event disclosures follow.

1.154

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Business combinations pending or effected	99	75	83	67
Debt incurred, reduced or refinanced	62	68	64	76
Capital stock issued or purchased	39	24	27	18
Discontinued operations or asset disposals	38	50	59	68
Litigation	33	36	29	38
Restructuring/bankruptcy	26	1	8	6
Stock splits or dividends	20	14	11	3
Employee benefits	14	10	11	8
Other—described	50	46	63	71

Business Combinations

1.155

NETWORK APPLIANCE, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar and share amounts in thousands)

15 (In Part): Subsequent Events

On April 7, 2005, Network Appliance entered into a definitive agreement to acquire Alacritus, Inc., a privately held company based in Pleasanton, California, that develops and sells disk-based data protection software solutions, for approximately $11,000 in an all-cash transaction. The transaction closed on May 2, 2005. The historical operating impact of Alacritus is not significant.

On June 15, 2005, Network Appliance entered into a definitive agreement to purchase Decru, Inc., a privately held company based in Redwood City, California, that develops and sells encryption software and appliances to secure network data storage, for an aggregate of approximately $265,000 (which amount is subject to settlement at the effective time based on certain expense and balance sheet items as set forth in Decru's financial statements immediately prior to the effective time), 80% of which will be paid in the form of our common stock and 20% of which will be paid in the form of cash. The number of common shares to be issued will be determined using our average stock price based on a period immediately preceding the close date, which is expected to be in October 2005 subject to various regulatory approvals.

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PHILLIPS-VAN HEUSEN CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

19 (In Part): Subsequent Events (Unaudited)

On January 31, 2006, Warnaco, Inc. acquired 100% of the shares of the companies that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *Calvin Klein* bridge line of sportswear and accessories in Europe. The Company is the licensor of the businesses sold and had minority interests in certain of the entities sold. The Company accounted for the investments in these entities under the cost method and, as such, these investments had a carrying amount of $768 at the time of the sale. The Company received $34,590 in cash proceeds from the sale of these entities, net of amounts held in escrow and certain associated fees. The cash proceeds are subject to adjustments, including for working capital. The Company's share of the cash proceeds being held in escrow totaled $5,000 as of January 31, 2006, and represents security for indemnification of certain potential losses incurred by Warnaco. The Company expects that the sale will result in a pre-tax gain of approximately $31,000, which is net of related fees, amounts held in escrow and the carrying value of the investments. The Company will record the gain in the first quarter of 2006. The Company will be entitled to receive any amounts remaining in escrow after indemnification payments to Warnaco in installments during 2007 and 2008. The Company will record the release of any escrow amounts as additional gains if and when such amounts are released to the Company. As part of this transaction, beginning in 2008 and continuing through December 2013, Warnaco will assume the license for men's and women's *Calvin Klein Collection* apparel and accessories worldwide.

Debt Incurred, Reduced, or Refinanced

1.157

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

19 (In Part): Subsequent Events

In January 2006, we issued in a public offering $500.0 principal amount of notes payable that mature on January 15, 2011, and bear interest, payable semi-annually, at a per annum rate equal to 5.125%. The net proceeds from the offering were used for general corporate purposes, including the repayment of short-term debt.

In January 2006, we entered into a five-year $1,000.0 revolving credit and competitive advance facility (the "new credit facility"), and simultaneously terminated the old credit facility. The new credit facility may be used for general corporate purposes. The interest rate on borrowings under the new credit facility is based on LIBOR or on the higher of prime or ½% plus the federal funds rate.

1.158

VERIZON COMMUNICATIONS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 24 (In Part): Subsequent Events (Unaudited)

Redemption of MCI Debt

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI $1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI $1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon is required to make this offer to noteholders within 30 days of the closing of the merger of MCI and Verizon. Separately, Verizon notified noteholders that MCI is exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI $1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, $1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those note-holders who did not accept this offer.

Issuance of Debt

In February 2006, Verizon issued $4,000 million of floating rate and fixed rate notes maturing from 2007 through 2035.

Capital Stock Issued or Purchased

1.159

DEL MONTE FOODS COMPANY (APR)

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

Note 17: Subsequent Event

On June 29, 2005, the Company purchased 11,996,161 shares of the Company's common stock from Goldman Sachs International ("Goldman Sachs") in a private transaction in connection with an accelerated stock buyback ("ASB"). Excluding commission payable to Goldman Sachs, the shares were repurchased for an upfront payment of approximately $125 or $10.42 per share, subject to a price adjustment provision. The repurchased shares are being held in treasury.

In connection with the ASB, Goldman Sachs is expected to purchase an equivalent amount of shares in the open-market over time. The program is expected to be completed within sixteen months. At the end of the program, the Company will receive or pay a price adjustment generally based on the volume weighted average price of shares traded during the purchase period. Approximately half of the shares purchased in connection with the ASB are subject to a collar, a contract that sets a minimum and maximum price for purposes of calculating the price adjustment. Generally, the purchase price adjustment can be settled, at the Company's option, in cash or in shares of its common stock.

1.160

RETAIL VENTURES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Events

On March 13, 2006, the Company issued 2,000,000 of its common shares to Cerberus in connection with Cerberus' exercise of a portion of its outstanding Convertible Warrants that were originally issued by the Company on July 5, 2005. The common shares were issued at an exercise price of $4.50 per share for an aggregate cash purchase price of $9,000,000. In connection with this issuance, no underwriters were utilized and no commissions were paid. Following this exercise, Cerberus' remaining Convertible Warrants entitle Cerberus to acquire from the Company, upon exercise and payment of the exercise price, either 6,333,333 of the Company's common shares or 1,500,001 Class A Common Shares of DSW.

Discontinued Operations or Asset Disposals

1.161

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

21 (In Part): Subsequent Events

Discontinued Business

On January 9, 2006, we announced a definitive agreement to sell substantially all of the Sensors & Controls segment, excluding the RFID systems operations which had been operated as a part of that segment, to an affiliate of Bain Capital, LLC, a leading global private equity investment firm, for $3 billion in cash. The sale is expected to be completed in the first half of 2006.

Beginning in the first quarter of 2006, the Sensors & Controls business to be sold will be presented as discontinued operations and the RFID operations retained will be included within the Semiconductor business segment. Prior period financial statements will be restated when presented.

As of December 31, 2005, assets and liabilities of the Sensors & Controls business to be sold are summarized as follows:

(In millions)	
Current assets	$271
Property, plant and equipment	169
Goodwill	36
Other noncurrent assets	—
Total assets	$476
Current liabilities	$115
Noncurrent liabilities	19
Total liabilities	$134

Litigation

1.162

THE SHERWIN-WILLIAMS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

Note 18 (In Part): Subsequent Events

Litigation

During September 2002, a jury trial commenced in the first phase of an action brought by the State of Rhode Island against the Company and the other defendants. The sole issue before the court in this first phase was whether lead pigment in paint constitutes a public nuisance under Rhode Island law. In October 2002, the court declared a mistrial as the jury, which was split four to two in favor of the defendants, was unable to reach a unanimous decision.

The State of Rhode Island retried the case and on February 22, 2006, the jury returned a verdict, finding that (i) the cumulative presence of lead pigment in paints and coatings on buildings in the State of Rhode Island constitutes a public nuisance, (ii) the Company, along with two other defendants, caused or substantially contributed to the creation of the public nuisance, and (iii) the Company and two other defendants should be ordered to abate the public nuisance. The Court will determine the scope of the abatement remedy. Various other matters remain before the Court. The Company intends to appeal the jury's verdict.

The Company's revolving credit agreement provides that one or more judgments against the Company or any subsidiary for the payment of money in excess of $75,000 and not covered by insurance constitutes a default. Such a judgment would become an event of default if it remains undischarged for a period of 60 days during which the execution of the judgment is not stayed, vacated or bonded pending appeal. If a default or an event of default occurs, the lenders may terminate any borrowing commitments. If an event of default occurs at the end of such 60 day period, the lenders may accelerate the payment of any borrowings outstanding and such event of default may also constitute an event of default under other borrowing facilities.

This was the first legal proceeding against the Company to go to trial relating to the Company's lead pigment and lead-based paint litigation. The Company cannot reasonably determine the impact that the State of Rhode Island decision and determination of liability will have on the number or nature of present or future claims and proceedings against the Company. The Company believes it is possible that additional legal proceedings could be scheduled for trial in 2006 and in subsequent years in other jurisdictions. Due to the uncertainties involved, management is unable to predict the outcome of the lead pigment and lead-based paint litigation, the number or nature of possible future claims and proceedings, or the effect that any such litigation may have on the Company. In addition, management cannot reasonably determine the scope or amount of the potential costs and liabilities related to such litigation. The Company has not accrued any amounts for such litigation. Any potential liability that may result from such litigation cannot reasonably be estimated. In the event any significant liability is determined to be attributable to the Company relating to such litigation, the recording of the liability may result in a material impact on net income for the annual or interim period during which such liability is accrued. Additionally, due to the uncertainties associated with the amount of any such liability and/or the nature of any other remedy which may be imposed in such litigation, any potential liability determined to be attributable to the Company arising out of such litigation may have a material adverse effect on the Company's results of operations, liquidity or financial condition. An estimate of the potential impact on the Company's results of operations, liquidity or financial condition cannot be made due to the aforementioned uncertainties.

Restructuring/Bankruptcy

1.163

ANALOGIC CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 (In Part): Subsequent Events

On September 28, 2005, the Company made the decision to restructure the business operations of its wholly-owned subsidiary, Sky Computers, Inc. ("Sky"). As a result, the Company will terminate the employment of approximately forty (40) employees of Sky between October 14, 2005 and July 31, 2006. More than half of those employees will be terminated during October 2005, most of whom have been engaged in product development, sales and administrative activities. The employees who are to remain after October 2005 have been and will continue to be engaged principally in the manufacturing and sale of Sky's legacy products and supporting Sky's installed customer base. The decision to restructure Sky is based on continued lower than expected sales. The expected completion date for the restructuring is July 31, 2006.

There are three major types of costs associated with the restructuring: personnel-related costs, such as severance pay; the write-down of certain capital assets; and the write-down of certain inventory. The amount estimated by the Company for each of these categories ranges from $0.9 million to $1.0 million, from $0.35 million to $0.4 million, and from $1.1 million to $1.3 million, respectively. The Company estimates that the total costs to be incurred related to this plan to be $2.35 million to $2.7 million.

The Company will record charges incurred in connection with the restructuring of approximately $1.9 million to $2.25 million during the quarter ending October 31, 2005. The Company estimates that $0.45 million of personnel-related charges will be incurred and recorded during the nine month period ending July 31, 2006. The Company believes that cash expenditures incurred subsequent to the quarter ending October 31, 2005 will approximate $0.45 million in personnel-related charges.

Stock Splits/Dividends

1.164

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S (In Part): Subsequent Events

Stock Split

On March 1, 2006, the company's board of directors authorized a two-for-one stock split to be effected in the form of a 100 percent stock dividend to be distributed on March 24, 2006, to shareholders of record at the close of business on March 13, 2006.

The total number of authorized common stock shares and par value were unchanged by this action. The stock split will require retroactive restatement of all historical share and per share data in the first quarter ending on April 2, 2006. Shareholders' equity will also be restated to give retroactive recognition of the stock split. For all periods presented, the par value of the additional shares resulting from the split will be reclassified from surplus to common stock.

All references to the number of shares and per share amounts in the Consolidated Financial Statements are presented on a pre-split basis.

The company's historical earnings per share on a pro forma basis, assuming the stock split had occurred on January 1, 2003, would be as follows:

	2005	2004	2003
Basic:			
Continuing operations	$ 3.66	$3.02	$2.48
Discontinued operations	(0.02)	0.05	0.06
Net earnings	$ 3.64	$3.07	$2.54
Diluted:			
Continuing operations	$ 3.63	$2.99	$2.46
Discontinued operations	(0.02)	0.05	0.06
Net earnings	$ 3.61	$3.04	$2.52

Employee Benefits

1.165

WENDY'S INTERNATIONAL, INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Subsequent Events

In February 2006, the Company announced that it would freeze its account balance defined benefit pension plan (the *"Plan"*) as of December 31, 2006. Beginning January 1, 2007, no new participants will enter the Plan, although participant account balances will continue to receive credits of at least 5% on their existing account balances. Contributions by the Company historically made based on a percentage of participant salary will no longer be made beginning January 1, 2007.

As of January 1, 2006, Plan assets were in excess of the accumulated benefit obligation. The Company has not decided how or when it may settle the liabilities of the Plan. Freezing of the Plan will be accounted for as a curtailment under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and will not have a significant impact on the Company's financial statements. If the liabilities of the Plan were settled, the Company would record a non-cash charge to write-off the prepaid benefit cost recorded on the Company's Consolidated Balance Sheets. As of January 1, 2006, the recorded prepaid benefit cost was $43.0 million.

Tariff Increase

1.166

CHIQUITA BRANDS INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 Subsequent Event—Change in European Union Banana Tariff Regime (Unaudited)

In January 2006, the European Commission implemented a new regulation for the importation of bananas into the European Union. It eliminates the quota that was previously applicable and imposes a higher tariff on bananas imported from Latin America, while imports from certain African, Caribbean and Pacific (ACP) sources are assessed zero tariff on 775,000 metric tons. The new tariff, which increased to €176 from €75 per metric ton, equates to an increase in cost of approximately €1.84 ($2.20) per box for bananas imported by the company into the European Union from Latin America, Chiquita's primary source of bananas. Based on its 2005 volumes, the company will incur incremental tariff costs of approximately $110 million. However, the company will no longer incur costs, which totaled approximately $40 million in 2005, to purchase licenses to import bananas into the European Union. It is too early to determine the impact of this new regime on industry volumes and prices, including the extent to which the company may be able to pass on increased tariffs and other industry costs to its customers. However, the overall negative impact of the new regime on the company is expected to be substantial, notwithstanding the company's intent to maintain its price premium in the European market. Certain Latin American-producing countries have taken steps to challenge this regime as noncompliant with the EU's World Trade Organization ("WTO") obligations. The company fully supports these legal challenges.

RELATED PARTY TRANSACTIONS

1.167 SFAS No. 57, *Related Party Disclosures,* specifies the nature of information which should be disclosed in financial statements about related party transactions. In 2005, 263 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Sale of Receivables to Subsidiary

1.168

AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Transfers of Financial Instruments

Sales and transfers of financial instruments are accounted for under Statement of Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"). The Company sells interests in accounts receivables to special purpose entities created as part of accounts receivable financing facilities established by the Company in Europe and the U.S. with major international banks (see Note 8 of Notes to Financial Statements). Receivables sold under such arrangements are removed from the balance sheet at the time they are sold since the transactions meet the sale criteria per FAS 140. Specifically, the receivables are legally isolated from the Company, the purchasers have the right to pledge or exchange the receivables and the purchasers obtain effective control over the receivables. Any retained interests in receivables sold are recorded by the Company at fair value and recorded in other current assets.

Note 8. Accounts Receivable Securitization Agreements

To reduce its borrowing cost, in May and September 2002 the Company established accounts receivable financing facilities in Europe and the U.S. with major international banks. As part of these facilities, the Company formed, special-purpose entities (in Europe, the "ESPE;" in the U.S., the "USSPE;" collectively, the "SPEs") that are included in the consolidated financial statements of the Company for the sole purpose of buying and selling receivables generated by the Company. Under these facilities the Company irrevocably and without recourse, transfers all eligible accounts receivable to the SPEs, which in turn, sell them, or undivided ownership interests in them, to conduits administered by the banks. The assets of the SPEs are not available to pay the claims of the Company or any of its subsidiaries. The Company retains a subordinated interest in the receivables sold of approximately 8% for ESPE and 51% for USSPE. The conduits obtain the funds to purchase the interests in the receivables, other than the retained interest, by selling commercial paper to third-party investors. Advances from the conduits to the SPEs are limited to approximately $501.0 milion (€275.0 million, or approximately €326.0 million at December 31, 2005 exchange rates under the European facility, and $175.0 million under the U.S. facility). The Company retains responsibilities for the collection and administration of receivables subject to these facilities. The Company is currently in compliance with these covenants. The European facility is subject to the maintenance of specified debt-rating levels, and for the U.S. facility, the maintenance of certain financial covenants. The Company is currently in compliance with the covenants. In addition, these facilities are subject to annual renewals. The European facility will require renewal in May 2006 and the U.S. facility in September 2006. The Company has the ability to renew these facilities and intends to renew them upon their expiration.

The receivables sold are removed from the balance sheet since they meet the applicable criteria of FAS 140. The Company's retained interest is recorded at fair value in the Company's Consolidated Balance Sheet. To the extent that the cash received and value of the retained interest is less than the net book value of the receivables sold, losses are recognized at the time of the sale. Those losses amounted to $47.9 million, $40.2 million and $41.7 million for the years ended December 31, 2005, 2004 and 2003, respectively and are included in other expense. The receivables represented by the retained interest are exposed to the risk of loss for any uncollectible amounts in the pool of receivables sold under this arrangement.

Following is a summary of receivables subject to the financing facilities:

	2005			2004		
(Dollars in millions)	ESPE	USSPE	Total	ESPE	USSPE	Total
Outstanding balances of receivables sold to SPEs	$373.4	$347.1	$720.5	$453.8	$265.7	$719.5
Net retained interest	$ 31.4	$177.0	$208.4	$ 51.9	$122.6	$174.5
Advances from conduits	$306.4	$172.2	$478.6	$368.8	$135.1	$503.9

The advances from conduits include amounts due to the conduits under the European and U.S. accounts receivable facilities for collections of receivables under the servicing agreement. The decrease in advances from conduits was comprised of a $46.9 million foreign exchange translation effect and $15.5 million reduction in the amount of receivables financed.

As of December 31, 2005 and 2004, the interest rates on amounts outstanding under the European facility were 2.79% and 2.70%, and under the U.S. facility were 4.27% and 2.24%, respectively.

Transaction Between Reporting Entity and Investee

1.169

ADVO, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Equity Investments and Related Party Transactions

The Company owns a 50% interest in Detroit Weekend Direct ("DWD") and New England Direct ("NED") and accounts for these interests under the equity method. These joint ventures are with specific metropolitan area newspapers creating integrated print advertising solutions by combining targeted direct mail with newspaper distribution. DWD was formed in October 2001 and NED was formed in July 2001. ADVO's equity investment balance in these joint ventures was $1.0 million at both September 24, 2005 and September 25, 2004.

Equity earnings in these joint ventures were $2.0 million, $2.6 million and $1.4 million, respectively, for the years ended September 24, 2005, September 25, 2004 and September 27, 2003. At September 24, 2005 and September 25, 2004, the Company had a payable due to these joint ventures of $0.6 million and $0.3 million, respectively. The payable results from transactions in the normal course of business and is recorded within accrued other expenses. During fiscal 2005, 2004 and 2003, the Company recorded revenues associated with production of the mail packages for the joint ventures of $2.5 million, $2.6 million, $2.6 million and $2.3 million, respectively.

1.170

DOW JONES & COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Investments in Associated Companies, at Equity

At December 31, 2005, the principal components of Investments in Associated Companies, at Equity were the following:

Investment	Ownership %	Description of Business
Dow Jones Reuters Business Interactive LLC (Factiva)	50	Provides electronic delivery of business news and online research, in partnership with Reuters Group Plc.
HB-Dow Jones S.A.	42	A part-owner of a publishing company in the Czech Republic.
SmartMoney	50	Publisher of SmartMoney magazine and SmartMoney.com, serving the private-investor market throughout the U.S. and Canada, in partnership with Hearst Corp.
STOXX, Ltd.	33	Provides and services the Dow Jones STOXX(sm) indexes, Europe's leading regional equity indexes.
Vedomosti	33	Publisher of an independent business newspaper in Russia, with Pearson and Independent Media.

The Company performs several services on behalf of Factiva, including some billing and collections of receivables and payroll services, in addition to leasing office space to Factiva. The Company also provides content to Factiva for which it receives revenue. At December 31, 2005 and 2004, other receivables included net amounts due from Factiva of $8.9 million and $4.2 million, respectively. Revenues of the Company included content and licensing fees from Factiva of $19.2 million in 2005, $13.5 million in 2004 and $11.4 million in 2003. Also, included in the Company's revenues are licensing revenues from STOXX, Ltd. of $5.6 million in 2005, $4.7 million in 2004 and $3.1 million in 2003.

Transaction Between Reporting Entity and Major Stockholder

1.171

ECOLAB INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Related Party Transactions

Henkel KGaA ("Henkel") beneficially owned 72.7 million shares, of approximately 28.6 percent, of the company's outstanding common stock on December 31, 2005. Under a stockholders' agreement between the company and Henkel, Henkel is permitted ownership in the company of up to 35 percent of the company's outstanding common stock. Henkel is also entitled to proportionate representation on the company's board of directors.

In 2005, 2004 and 2003, the company and its affiliates sold products and services in the aggregate amounts of $3,574,000, $3,222,000 and $3,426,000, respectively, to Henkel or its affiliates, and purchased products and services in the amounts of $65,279,000, $70,946,000 and $71,265,000, respectively, from Henkel or its affiliates. The transactions with Henkel and its affiliates were made in the ordinary course of business and were negotiated at arm's length.

Transaction Between Reporting Entity and Officer/Director

1.172

AVERY DENNISON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. Management believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). The Company paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with several of the Company's employee benefit plans. The Mullin Companies have advised the Company that MC, MINC and PWM earned commissions from such insurance carriers for the placement and renewal of this insurance, for which Mr. Mullin had direct and indirect interests related to these commissions. The majority of these commissions were allocated to and used by MC Insurance Agency Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under several of the Company's employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which the Company placed through the Mullin Companies, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised the Company that they participated in net reinsurance gains of M Life. None of these transactions were significant to the financial position or results of operations of the Company.

SUMMARY OF RELATED PARTY ACTIVITY

(In millions)	2005	2004	2003
Mullin Companies commissions on the Company's insurance premiums	$ .9	$1.1	$1.1
Mr. Mullin's direct & indirect interest in these commissions	.7	.8	.7
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to the Company's life insurance policies	.2	.2	—
Mr. Mullin's direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.2	—
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to the Company's life insurance policies	1.5	—	—
Mr. Mullin's direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	1.1	—	—

1.173

FIRST DATA CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Related Party Transactions

Transactions and Balances Involving Directors and Company Executives

Mr. Robinson, a director of the Company, and members of his family have equity interests in RRE Investors, L.P.; RRE Investors Fund, L.P.; RRE Ventures II, L.P.; RRE Ventures Fund II, L.P.; RRE Ventures III-A, L.P.; RRE Ventures III, L.P.; RRE Ventures Fund III, L.P.; and RRE Advisors, LLC. Prior to authorizing the transactions as described below, Mr. Robinson's interests in the transactions were disclosed to and reviewed by the Board or the Oversight Committee of the Board.

Between 1996 and 2001 the Company committed to invest a total of $9 million to the above noted RRE companies and as of December 31, 2005 such commitments were substantially fully funded except for commitments to RRE Ventures III, L.P. which is more than 60% funded. The Company is required to pay annual management fees to several of those entities ranging from 2% to 2.5% of the actively managed capital as well as its pro rata share of certain expenses. During 2005 the Company incurred management fees of less than $200,000.

In 2003 and 2004, the Company invested a total of $7.6 million in two entities in which RRE companies also invested in and have non-controlling ownership interests. In 2005 the Company sold assets for $1.5 million to an entity in which Mr. Robinson is a director and RRE entities hold a minority interest.

Mr. Kiphart, a director of the Company, is the manager of the corporate finance department and a principal at William Blair & Company, L.L.C. Prior to the acquisition of Vigo Remittance Corp. by the Company in October 2005, Vigo hired William Blair to advise it in connection with its consideration of the proposed acquisition and to provide a fairness opinion in connection with the acquisition. Vigo paid William Blair a fee of $2.8 million upon completion of the acquisition, which included reimbursing William Blair for all of its out of pocket expenses (including fees and expenses of its counsel) reasonably incurred by it in connection with its services, and will indemnify William Blair against potential liabilities arising out of its engagement.

Prior to the merger of Concord EFS, Inc. into a subsidiary of the Company and his becoming a director of the Company on March 1, 2004, Richard P. Kiphart was the non-executive chairman of the board of directors of Concord as well as the manager of the corporate finance department and a principal at William Blair & Company, L.L.C. Concord hired William Blair to advise it in connection with its consideration of the proposed merger and to provide a fairness opinion in connection with the merger. Pursuant to a letter agreement dated February 20, 2003, Concord paid William Blair a fee of $1.5 million upon the delivery of its opinion, dated April 1, 2003, as to the fairness, from a financial point of view, of the exchange ratio in the original merger agreement. Under the terms of the agreement, William Blair received an additional fee of $9.5 million upon the completion of the merger on February 26, 2004. In addition, Concord reimbursed William Blair for all of its out-of-pocket expenses (including fees and expenses of its counsel) reasonably incurred by it in connection with its services and will indemnify William Blair against potential liabilities arising out of its engagement.

Transaction Between Reporting Entity and Variable Interest Entity

1.174

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21 (In Part): Arrangements With Off-Balance Sheet Risk

Material Variable Interests in Unconsolidated Entities

Our investments in an ETC, EETCs and other Variable Interest Entities (VIEs) are included within the scope of Revised Interpretation No. 46 (FIN 46(R)), *Consolidation of Variable Interest Entities.* All entities that were required to be consolidated under FIN 46(R) had been previously consolidated and therefore, the adoption of FIN 46(R) had no impact on our consolidated financial statements.

We have investments in an ETC and EETCs, which were acquired between 1999 through 2005. ETCs and EETCs are trusts that passively hold investments in aircraft or pools of aircraft. The ETC and EETCs provide investors with collateral position in the related asset. The ETC provides investors with rights to cash flows from a financial instrument. EETCs provides investors with tranched rights to cash flows from financial instruments. Our investments in an ETC and EETCs do not require consolidation under FIN 46(R). At December 31, 2005, our maximum exposure to economic loss from the ETC and EETCs is limited to our investment balance of $269. Accounting losses from our investments in the ETC and EETCs, if any, could differ from period to period. At December 31, 2005, the ETC and EETC transactions we participated in had total assets of $3,985 and total debt (which is nonrecourse to us) of $3,716. During the year ended December 31, 2005, we recorded revenues of $36 and cash flows of $65.

From 1998 through 2005, we provided subordinated loans to certain VIEs that are financial structures commonly utilized by airlines, lenders and loan guarantors, including, for example, the Export-Import Bank of the United States. These VIEs are included in the scope of FIN 46(R); however, only certain VIEs require consolidation. VIE arragements are utilized to isolate individual transactions for legal liablility or tax purposes, or to perfect security interests or for other structuring reasons. We believe that our maximum exposure to economic loss from these non-consolidated VIEs is $12, which represents our investment balance. At December 31, 2005, VIEs of which we were not the beneficiary, other than the ETC and EETCs noted above, had total assets of $161 and total debt (which is nonrecourse to us) of $150. During 2005, we recorded revenues of $1 and cash flows of $6 related to these VIEs.

1.175

FLOWERS FOODS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Flowers Foods and its wholly-owned subsidiaries. The company maintains a transportation agreement with a thinly capitalized entity. The company is the primary beneficiary of this entity, and, in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*, the company consolidates this entity in its Consolidated Financial Statements. For further information, see Note 12 below. Intercompany transactions and balances are eliminated in consolidation.

Note 12. Variable Interest Entity

The company maintains a transportation agreement with a thinly capitalized entity. This entity transports a significant portion of the company's fresh bakery products from the company's production facilities to outlying distribution centers. The company represents a significant portion of the entity's revenue. This entity qualifies as a Variable Interest Entity ("VIE"), but not a Special Purpose Entity and, under FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*, the company is the primary beneficiary. In accordance with FIN 46, the company consolidated this entity effective with the first quarter of fiscal 2004. There was no cumulative effect recorded. The VIE has collateral that is sufficient to meet its capital lease and other debt obligations, and the owner of the VIE personally guarantees the obligations of the VIE. The VIE's creditors have no recourse against the general credit of the company.

Follwing is the effect of the VIE during fiscal 2005 and fiscal 2004:

	Fiscal 2005		Fiscal 2004	
(Dollars in thousands)	VIE	% of Total	VIE	% of Total
Assets as of respective fiscal year ends	$28,137	3.3%	$22,579	2.6%
Sales	$12,402	0.7%	$12,403	0.8%
Income from continuing operations before income taxes and minority interest	$ 2,904	2.7%	$ 1,769	1.9%

The assets consist primarily of $21.1 million and $16.2 million, respectively, of transportation equipment recorded as capital lease obligations.

Consolidated Tax Return

1.176

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

4 (In Part): Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. This return includes all domestic companies 80% or more owned by the Company and the proportionate share of the Company's interest in partnership investments. State tax returns are filed on a consolidated, combined or separate basis depending on the applicable laws relating to the Company and its domestic subsidiaries.

Tax Sharing Agreement

1.177

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollar amounts in millions)

Note 15 (In Part): Supplemental Financial Data

Other Accrued and Current Liabilities

	2005	2004
Restructuring accruals	$ 9.4	$ 9.3
Professional fees	27.4	27.5
Operating expenses	27.0	31.5
Spin-off obligation(1)	35.0	21.3
Other accrued liabilities	61.7	52.2
	$160.5	$141.8

(1) As part of our spin-off from Moody's/D&B2 in 2000, Moody's and us entered into a Tax Allocation Agreement dated as of September 30, 2000 (the "TAA"). Under the TAA, Moody's/D&B2 and D&B agreed that Moody's/D&B2 would be entitled to deduct compensation expense associated with the exercise of Moody's/D&B2 stock options (including Moody's/D&B2 options exercised by D&B employees) and we would be entitled to deduct the compensation expense associated with the exercise of D&B stock options (including D&B options exercised by employees of Moody's/D&B2). In other words, the tax deduction goes to the company that issued the stock options. The TAA provides, however, that if the IRS issues rules, regulations or other authority contrary to the agreed upon treatment of the tax deductions thereunder, then the party that becomes entitled under such new guidance to take the deduction may be required to reimburse the tax benefit it has realized, in order to indemnify the other party for its loss of such deduction. The IRS issued rulings discussing an employer's entitlement to stock option deductions after a spin-off or liquidation that appear to require that the tax deduction belongs to the employer of the optionee and not the issuer of the option. Accordingly, under the TAA, we received the benefit of additional tax deductions and under the TAA we may be required to reimburse Moody's/D&B2 for the loss of income tax deductions relating to 2002 to 2005 of approximately $35.0 million in the aggregate for such years. This potential reimbursement is a reduction to Shareholders' Equity and has no impact on EPS.

INFLATION ACCOUNTING

1.178 SFAS No. 89, *Financial Reporting and Changing Prices*, states that companies previously required to disclose current cost information are no longer required to disclose such information.

1.179 Many of the survey companies include comments about inflation in Management's Discussion and Analysis of Financial Condition and Results of Operations. An example follows.

1.180

JACOBS ENGINEERING GROUP INC. (SEP)

EFFECTS OF INFLATION

During fiscal 2005, 2004, and 2003, approximately 85%, 83%, and 82%, respectively, of our consolidated revenues were earned under cost-reimbursable type contracts. Because a significant portion of our revenues is earned from such contracts, the effects of inflation on our financial condition and results of operations continue to be generally low. However, as we expand our business into markets and geographic areas where fixed-price and lump-sum work is more prevalent, inflation may have a larger impact on our results of operations in the future. To the extent permitted by competition, we intend to continue to emphasize contracts which are either cost-reimbursable or negotiated fixed-price. For contracts with fixed-price and lump-sum terms, we closely monitor the actual costs on the project as compared to the original estimates. On these projects, we also attempt to secure fixed-price commitments from key subcontractors and vendors. However, due to the competitive nature of our business, combined with the fluctuating demands and prices associated with personnel, equipment and materials we traditionally need in order to perform on our contracts, there can be no guarantee that inflation will not affect our results of operations in the future.

Section 2: Balance Sheet

BALANCE SHEET TITLE

2.01 Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

2.02

TABLE 2-1: BALANCE SHEET TITLE

	2005	2004	2003	2002
Balance Sheet	577	576	574	574
Statement of Financial Position	22	23	24	24
Statement of Financial Condition	1	1	2	2
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

2.03 Table 2-2 summarizes the different balance sheet formats used by the survey companies. Balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and stockholders' equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to stockholders' equity or total assets equal to total liabilities plus stockholders' equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to stockholders' equity.

2.04 Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of All Majority-Owned Subsidiaries*, requires that companies consolidate subsidiaries having nonhomogeneous operations. This requirement resulted in certain survey companies presenting an unclassified balance sheet (15 companies in 2005) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (six companies in 2005).

2.05 Occasionally, the survey companies disclose reclassifications of balance sheet amounts. Examples of a reclassification follow.

2.06

TABLE 2-2: BALANCE SHEET FORMAT

	2005	2004	2003	2002
Report form	506	504	506	507
Account form	94	96	94	92
Financial position form	—	—	—	1
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

2.07

KELLY SERVICES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain prior year amounts have been reclassified to conform with the current presentation, including the following reclassifications: As of year-end 2004 and 2003, respectively, $3,206 and $2,367 of restricted cash was reclassified from cash and equivalents to prepaid expenses and other current assets. As of year-end 2004 and 2003, respectively, $1,515 and $1,985 of restricted stock was reclassified from accrued payroll and related taxes to additional paid-in capital. As of year-end 2004, $2,738 of long-term deferred rent was reclassified from accounts payable to other long-term liabilities and $3,636 of long-term accrued disability was reclassified from accrued payroll and related taxes to other long-term liabilities.

2.08

KIMBALL INTERNATIONAL, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications (In Part)

Certain prior year information has been reclassified to conform to the current year presentation. The Company changed its classification of investments in auction rate securities, previously classified as cash and cash equivalents, to short-term investments for each of the periods presented in the accompanying consolidated balance sheets and statements of cash flows. Auction rate securities are variable rate bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 1, 7, 28 or 35 days. The Company had historically classified auction rate securities as cash and cash equivalents if the period between the interest rate resets was 90 days or less, which was based on our ability to either liquidate our holdings or roll our investments over to the next reset period. Based on recent accounting interpretations, the Company reevaluated the classification of these investments considering the maturity dates associated with the underlying bonds and as a result, reclassified $14,950,000 and $10,000,000 of auction rate securities held at June 30, 2004 and 2003, respectively, from cash and cash equivalents to short-term investments. As of June 30, 2005, the Company has $28,125,000 of auction rate securities classified as short-term investments. All auction rate securities are available for sale and are reported at fair value. In addition to the balance sheet reclassification, the Company has made corresponding adjustments to the accompanying statement of cash flows to reflect the gross purchases and sales of these securities as investing activities. These reclassifications had no impact on the results of operations of the Company.

CASH AND CASH EQUIVALENTS

2.09 Cash is commonly considered to consist of currency and demand deposits. SFAS No. 95, *Statement of Cash Flows*, defines cash equivalents as "short-term, highly liquid investments" that will mature within three months or less after being acquired by the holder. 485 survey companies stated explicitly that the carrying amount of cash and cash equivalents approximated fair value.

2.10 Table 2-3 lists the balance sheet captions used by the survey companies to describe cash and cash equivalents. As indicated in Table 2-3, the most frequently used caption is cash and cash equivalents. Examples of cash and cash equivalents presentations and disclosures follow.

2.11

TABLE 2-3: CASH AND CASH EQUIVALENTS—BALANCE SHEET CAPTIONS

	2005	2004	2003	2002
Cash	22	29	36	35
Cash and cash equivalents	528	515	505	501
Cash and equivalents	34	37	34	32
Cash includes certificates of deposit or time deposits	2	2	1	2
Cash combined with marketable securities	13	14	21	25
No amount for cash	1	3	3	5
Total Companies	**600**	**600**	**600**	**600**

2.12

BMC SOFTWARE, INC. (MAR)

(In millions)	2004	2005
Current assets		
Cash and cash equivalents	$ 612.3	$ 820.1
Marketable securities	296.6	108.7
Accounts receivable:		
Trade, net	172.6	191.8
Current trade finance receivables, net	175.5	151.8
Total accounts receivable	348.1	343.6
Current deferred tax assets	102.7	86.8
Other current assets	76.7	81.2
Total current assets	$1,436.4	$1,440.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

d) Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. As of March 31, 2004 and 2005, the Company's cash equivalents were comprised primarily of money market funds. The Company's cash equivalents are subject to potential credit risk. The Company's cash management and investment policies restrict investments to investment grade, highly liquid securities. The carrying value of cash and cash equivalents approximates fair value.

2.13

CBRL GROUP, INC. (JUL)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 17,173	$ 28,775
Receivables	13,736	9,802
Inventories	142,804	141,820
Prepaid expenses	7,238	8,369
Deferred income taxes	9,532	14,274
Total current assets	$190,483	$203,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

2 (In Part): Summary of Significant Accounting Policies

Financial Instruments (In Part)

The fair values of cash and cash equivalents, accounts receivable, and accounts payable as of July 29, 2005, approximate their carrying amounts due to their short duration. The carrying value and fair value of the Company's zero-coupon contingently convertible senior notes (the "Senior Notes") in long-term debt at July 29, 2005 were $190,718 and $202,584, respectively. The fair value of the Senior Notes in long-term debt is determined based on market prices using the average of the bid and ask prices as of July 29, 2005.

Cash and Cash Equivalents

The Company's policy is to consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

MARKETABLE SECURITIES

2.14 SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115*, as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, state the disclosure requirements for such investments.

2.15 By definition, investments in debt and equity securities are financial instruments. For investments subject to *SFAS No. 115* requirements, SFAS No. 107, *Disclosure About Fair Value of Financial Instruments*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of marketable securities unless it is not practicable to estimate that value. During 2005, 264 survey companies made 268 fair value disclosures. 112 of those disclosures used market or broker quotes of the investments in debt and equity securities to determine fair value. Nine of those disclosures estimated fair value using other valuation methods. 179 disclosures presented carrying amounts which approximated fair value of marketable securities. In addition there were 73 disclosures in which carrying value was compared to fair value in an exposition or a table.

2.16 *SFAS No. 115* requires that certain debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities and reported at fair value. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value. 180 survey companies identified their marketable securities as available-for-sale.

2.17 Statement of Financial Accounting Concepts (SFAC) No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, was issued in February 2000. It provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.18 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.19 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach or discounted cash flow applications were compiled.

2.20 The FASB's Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, should be used to determine when certain investments are considered impaired, whether that impairment is other than temporary, and the measurement and recognition of an impairment loss. *EITF Issue No. 03-1* also provides guidance on accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

2.21 Table 2-4 lists the balance sheet carrying bases for investments in debt and equity securities presented as current assets. Examples of presentations and disclosures for such investments follow.

2.22

TABLE 2-4: MARKETABLE SECURITIES—BASES

	Number of Companies			
	2005	2004	2003	2002
Market/fair value	212	190	175	168
Cost	54	52	48	54
Lower of cost or market	—	—	—	1

Available-for-Sale Securities

2.23

GOOGLE INC. (DEC)

(In thousands)	2004	2005
Current assets		
Cash and cash equivalents	$ 426,873	$3,877,174
Marketable securities	1,705,424	4,157,073
Accounts receivable, net of allowances of $3,962 and $14,852	311,836	687,976
Income taxes receivable	70,509	—
Deferred income taxes, net	19,463	49,341
Prepaid revenue share, expenses and other assets	159,360	229,507
Total current assets	$2,693,465	$9,001,071

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

Cash and Cash Equivalents and Marketable Securities

We invest our excess cash in money market funds and in highly liquid debt instruments of U.S. municipalities, corporations and the U.S. government and its agencies. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents; all highly liquid investments with stated maturities of greater than three months are classified as marketable securities.

We determine the appropriate classification of our investments in marketable debt and equity securities at the time of purchase and reevaluate such designation at each balance sheet date. Our marketable debt and equity securities have been classified and accounted for as available for sale. We may or may not hold securities with stated maturities greater than twelve months until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, we occasionally sell these securities prior to their stated maturities. As these debt and equity securities are viewed by us as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A, Working Capital—Current Assets and Liabilities, equity securities, as well as debt securities with maturities beyond 12 months (such as our auction rate securities) are classified as current assets in the accompanying consolidated balance sheets. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity, except for unrealized losses determined to be other than temporary which are recorded as interest income and other, net. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of interest income and other, net.

Note 2. Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities consists of the following (in thousands):

	2004	2005
Cash and cash equivalents		
Cash	$ 394,460	$1,588,515
Cash equivalents:		
Municipal securities	2,951	—
U.S. government notes and agencies	18,997	2,281,858
Money market mutual funds	10,465	6,801
Total cash and cash equivalents	426,873	3,877,174
Marketable securities		
Municipal securities	1,616,684	1,203,209
U.S. government notes and agencies	5,163	2,906,698
U.S. corporate securities	83,577	—
Equity security	—	47,166
Total marketable securities	1,705,424	4,157,073
Total cash, cash equivalents and marketable securities	$2,132,297	$8,034,247

The following table summarizes unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in thousands):

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004				
Municipal securities	$1,622,883	$ 118	$ (6,317)	$1,616,684
U.S. government notes and agencies	5,211	—	(48)	5,163
U.S. corporate securities	83,741	—	(164)	83,577
Total marketable securities	$1,711,835	$ 118	$ (6,529)	$1,705,424
2005				
Municipal securities	$1,219,078	$ 28	$(15,897)	$1,203,209
U.S. government notes and agencies	2,911,410	418	(5,130)	2,906,698
Equity security	5,000	42,166	—	47,166
Total marketable securities	$4,135,488	$42,612	$(21,027)	$4,157,073

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2004 and 2005. We found no other-than-temporary impairments to our marketable securities during 2004 and 2005. We have not experienced any significant realized gains or losses on our investments in the periods presented.

The following table summarizes the estimated fair value of our investments in marketable securities designated as available-for-sale classified by the contractual maturity date of the security (in thousands):

	2004	2005
Due within 1 year	$ 340,771	$ 970,073
Due within 1 year through 5 years	853,604	2,967,148
Due within 5 years through 10 years	65,017	59,122
Due after 10 years	446,032	160,730
Total marketable securities	$1,705,424	$4,157,073

In accordance with EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2004 and 2005, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
Security description	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2004						
U.S. government notes and agencies	$ 5,163	$ (48)	$ —	$ —	$ 5,163	$ (48)
Municipal securities	1,192,096	(6,176)	18,116	(141)	1,210,212	(6,317)
U.S. corporate securities	25,877	(164)	—	—	25,877	(164)
Total	$1,223,136	$ (6,388)	$ 18,116	$ (141)	$1,241,252	$ (6,529)
2005						
U.S. government notes and agencies	$2,099,408	$ (5,130)	$ —	$ —	$2,099,408	$ (5,130)
Municipal securities	607,990	(7,705)	513,425	(8,192)	1,121,415	(15,897)
Total	$2,707,398	$(12,835)	$513,425	$(8,192)	$3,220,823	$(21,027)

2.24

SABRE HOLDINGS CORPORATION (DEC)

(In thousands)	2005	2004
Current assets		
Cash	$ 135,233	$ 49,671
Restricted cash	57,019	—
Marketable securities	376,585	787,353
Accounts receivable, net	505,662	317,824
Prepaid expenses	41,632	63,521
Deferred income taxes	23,013	23,349
Other receivables	109,144	31,797
Total current assets	$1,248,288	$1,273,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Marketable Securities

Marketable securities consist of (in thousands):

	2005	2004
Corporate notes	$233,351	$265,277
Debt securities issued by U.S. Treasury, foreign governments and other government agencies[1]	103,200	416,711
Mortgages	4,738	41,788
Other debt securities[1]	35,296	63,577
Total	$376,585	$787,353

(1) Includes securities guaranteed by a U.S. government agency.

The following table summarizes marketable securities by contractual maturity (in thousands):

	2005	2004
Due in one year or less	$138,254	$461,674
Due after one year through three years	193,305	1,038
Due after three years	45,026	324,641
Total	$376,585	$787,353

Marketable securities, all of which are classified as available-for-sale, are stated at fair value based on market quotes. Unrealized gains and losses, net of deferred taxes, have not been significant and are recorded as a component of other comprehensive income.

We expect that the majority of marketable securities will be sold within one year, regardless of maturity date. We primarily invest in high-credit-quality debt instruments with an active resale market and money market funds to ensure liquidity and the ability to readily convert these investments into cash to fund current operations, or satisfy other cash requirements as needed. Accordingly, we have classified all marketable securities as current assets in the accompanying balance sheets. The decrease in marketable securities between 2004 and 2005 is due to the use of $361 million of our marketable securities to acquire lastminute.com in July 2005 and other various investing and financing activities.

Held-to-Maturity Securities

2.25

THE GAP, INC. (JAN)

($ in millions)	2006	2005
Current assets		
Cash and equivalents	$2,035	$2,245
Short-term investments	952	817
Restricted cash	55	1,015
Merchandise inventory	1,696	1,814
Other current assets	501	413
Total current assets	$5,239	$6,304

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Short-Term Investments

We have short-term investments, which generally have maturities of more than three months and less than one year from the date of purchase. Our short-term investments are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. Primarily all securities held are U.S. government and agency securities and bank certificates of deposit and are stated at amortized cost, which approximates fair market value. Income related to these securities is reported as a component of interest income.

The tables below summarize our marketable securities as of January 28, 2006 and January 29, 2005, which are recorded as cash and equivalents on the Consolidated Balance Sheets, and our short-term investments:

($ in millions)	Cost Basis	Accrued Interest	Amortized Cost	Fair Value	Marketable Securities	Short-Term Investments
2006						
Original maturity less than 91 days						
Money market investments	$ 239	$—	$ 239	$ 239	$ 239	$ —
Interest bearing accounts	175	—	175	175	175	—
Commercial paper	711	2	713	713	711	—
Certificates of deposit	50	—	50	50	50	—
Agency discount notes	443	2	445	445	443	—
Original maturity greater than 91 days						
Certificates of deposit	130	3	133	133	—	133
Agency discount notes	731	10	741	741	—	741
Agency bonds	77	1	78	78	—	78
	$2,556	$18	$2,574	$2,574	$1,618	$952
2005						
Original maturity less than 91 days						
Money market investments	$1,102	$—	$1,102	$1,102	$1,102	$ —
Commercial paper	326	—	326	326	326	—
Certificates of deposit	65	—	65	65	65	—
Agency discount notes	423	—	423	423	423	—
Original maturity greater than 91 days						
Certificates of deposit	35	—	35	35	—	35
Agency discount notes	779	3	782	782	—	782
	$2,730	$ 3	$2,733	$2,733	$1,916	$817

2.26

WYETH (DEC)

(In thousands)	2005	2004
Cash and cash equivalents	$ 7,615,891	$ 4,743,570
Marketable securities	618,619	1,745,558
Accounts receivable less allowances (2005—$142,047 and 2004—$139,091)	3,030,580	2,798,565
Inventories	2,333,543	2,478,009
Other current assets including deferred taxes	4,446,208	2,672,327
Total current assets	$18,044,841	$14,438,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Marketable Securities

The Company has marketable debt and equity securities, which are classified as either available-for-sale or held-to-maturity, depending on management's investment intentions relating to these securities. Available-for-sale securities are marked-to-market based on quoted market values of the securities, with the unrealized gains and losses, net of tax, reported as a component of *Accumulated other comprehensive income (loss).* Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other-than-temporary declines in fair value. Investments categorized as held-to-maturity are carried at amortized cost because the Company has both the intent and ability to hold these investments until they mature. Impairment losses are charged to income for other-than-temporary declines in fair value. Premiums and discounts are amortized or accreted into earnings over the life of the related available-for-sale or held-to-maturity security. Dividend and interest income is recognized when earned. The Company owns no investments that are considered to be trading securities.

4. Marketable Securities

The cost, gross unrealized gains (losses) and fair value of available-for-sale and held-to-maturity securities by major security type at December 31, 2005 and 2004 were as follows:

(In thousands)	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
2005				
Available-for-sale:				
U.S. Treasury securities	$ 19,796	$ —	$ (265)	$ 19,531
Corporate debt securities	163,762	162	(282)	163,642
Mortgage-backed securities	7,136	13	—	7,149
Equity securities	50,921	12,578	(293)	63,206
Institutional fixed income fund	349,251	9,831	(4,920)	354,162
Total available-for-sale	590,866	22,584	(5,760)	607,690
Held-to-maturity				
Commercial paper	9,933	—	—	9,933
Certificates of deposit	996	—	—	996
Total held-to-maturity	10,929	—	—	10,929
Total marketable securities	$ 601,795	$22,584	$(5,760)	$ 618,619
2004				
Available-for-sale:				
U.S. Treasury securities	$ 60,439	$ —	$ (286)	$ 60,153
Commercial paper	32,597	—	—	32,597
Certificates of deposit	54,867	3	(52)	54,818
Corporate debt securities	485,007	130	(528)	484,609
Asset-backed securities	258,543	15	(166)	258,392
Mortgage-backed securities	77,983	4	(67)	77,920
Other debt securities	2,469	—	(12)	2,457
Equity securities	48,264	8,998	(6,918)	50,344
Institutional fixed income fund	531,929	16,713	—	548,642
Total available-for-sale	1,552,098	25,863	(8,029)	1,569,932
Held-to-maturity				
Commercial paper	175,626	—	—	175,626
Total marketable securities	$1,727,724	$25,863	$(8,029)	$1,745,558

The contractual maturities of debt securities classified as available-for-sale at December 31, 2005 were as follows:

(In thousands)	Cost	Fair Value
Available-for-sale		
Due within one year	$ 89,267	$ 89,038
Due after one year through five years	91,759	91,587
Due after five years through 10 years	—	—
Due after 10 years	9,668	9,697
	$190,694	$190,322

All held-to-maturity debt securities are due within one year and had aggregate fair values of $10.9 million at December 31, 2005.

Trading Securities

2.27

INTEL CORPORATION (DEC)

(In millions)	2005	2004
Current assets		
Cash and cash equivalents	$ 7,324	$ 8,407
Short-term investments	3,990	5,654
Trading assets	1,458	3,111
Accounts receivable, net of allowance for doubtful accounts of $64 ($43 in 2004)	3,914	2,999
Inventories	3,126	2,621
Deferred tax assets	1,149	979
Other current assets	233	287
Total current assets	$21,194	$24,058

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Investments (In Part)

Trading Assets

Trading assets are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The company may elect to classify a portion of its marketable debt securities as trading assets. For these debt instruments, gains or losses from changes in fair value due to interest rate and currency market fluctuations, offset by losses or gains on related derivatives, are included in interest and other, net. Also included in trading assets is a marketable equity portfolio held to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. Gains or losses from changes in fair value of these equity securities, offset by losses or gains on the related liabilities, are included in interest and other, net. The company also uses fixed-income investments and derivative instruments to seek to offset the remaining portion of the changes in the deferred compensation liabilities. In addition, a portion of the company's marketable equity securities may from time to time be classified as trading assets, if the company no longer deems the investments to be strategic in nature at the time of trading asset designation, and has the ability and intent to mitigate equity market risk through sale or the use of derivative instruments. For these marketable equity securities, gains or losses from changes in fair value, primarily offset by losses or gains on related derivative instruments, are included in gains (losses) on equity securities, net.

Fair Values of Financial Instruments

The carrying value of cash equivalents approximates fair value due to the short period of time to maturity. Fair values of short-term investments, trading assets, long-term investments, marketable strategic equity securities, certain non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts, currency options, equity options and warrants are based on quoted market prices or pricing models using current market data. Debt securities are generally valued using discounted cash flows in a yield-curve model based on LIBOR. Equity options and warrants are priced using an option pricing model. For the company's portfolio of non-marketable equity securities, management believes that the carrying value of the portfolio approximates the fair value at December 31, 2005 and December 25, 2004. This estimate takes into account the market movements of the equity and venture capital markets, the impairment analyses performed and the related impairments recorded over the last few years. All of the company's financial instruments are recorded at fair value except for non-marketable investments, including cost basis loan participation notes, and debt. Management believes that the differences between the estimated fair values and carrying values of these financial instruments were not significant at December 31, 2005 and December 25, 2004. Estimated fair values are management's estimates; however, when there is no readily available market, the estimated fair values may not necessarily represent the amounts that could be realized in a current transaction, and these fair values could change significantly.

Note 6 (In Part): Investments

Trading Assets

Trading assets outstanding at fiscal year-ends were as follows:

	2005		2004	
(In millions)	Net Unrealized Gains (Losses)	Estimated Fair Value	Net Unrealized Gains	Estimated Fair Value
Debt instruments	$ (1)	$1,095	$187	$2,772
Equity securities offsetting deferred compensation	93	363	81	339
Total trading assets	$92	$1,458	$268	$3,111

Net gains (losses) for the period on fixed-income debt instruments classified as trading assets still held at the reporting date were $(47) million in 2005 ($80 million in 2004 and $208 million in 2003). Net gains (losses) on the related derivatives were $52 million in 2005 ($(77) million in 2004 and

$(192) million in 2003). These amounts were included in interest and other, net in the consolidated statements of income.

Certain equity securities within the trading asset portfolio are maintained to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were $316 million in 2005 ($458 million in 2004), and are included in other accrued liabilities on the consolidated balance sheets. The decrease in 2005 was primarily related to an amendment of the company's U.S. defined-benefit plan, which resulted in a transfer of deferred compensation liabilities to the plan. Net gains for the period on equity securities offsetting deferred compensation arrangements still held at the reporting date were $15 million in 2005 and were included within interest and other, net in the consolidated statements of income ($29 million in 2004 and $52 million in 2003).

Prior to 2004, the company held certain other marketable equity securities that were included in trading assets. Net gains for the period on these equity security trading assets still held at the reporting date were $77 million in 2003. Net losses on the related derivatives were $84 million in 2003. These gains and losses were included within losses on equity securities, net in the consolidated statements of income.

CURRENT RECEIVABLES

2.28 As stated in paragraph 13 of *SFAS No. 107*, as amended by *SFAS No. 133*, fair value disclosure is not required for trade receivables when the carrying amount of the trade receivable approximates its fair value. 341 survey companies made 343 fair value disclosures. 325 disclosures presented carrying amounts which approximated fair value of trade receivables.

2.29 Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, issued by Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA) requires that loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, such receivables held for sale should be a separate balance-sheet category. Major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes to the financial statements. The allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premium and discounts, and any net unamortized deferred fees and costs, should be disclosed in the financial statements.

2.30 Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables, and the types of receivables, other than trade receivables, which the survey companies most frequently presented as current assets. Examples of presentations and disclosures for current receivables follow.

2.31

TABLE 2-5: CURRENT RECEIVABLES

	2005	2004	2003	2002
Trade Receivable Captions:				
Accounts receivable	289	297	283	289
Receivables	130	122	137	127
Trade accounts receivable	98	104	112	117
Accounts and notes receivable	61	56	52	51
No caption for current receivables	22	21	16	16
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Receivables Other Than Trade Receivables:				
Tax refund claims	50	61	67	69
Investees/affiliates	42	45	41	45
Contracts	39	39	36	35
Finance	25	30	24	26
Retained interest in sold receivables	19	24	25	29
Insurance claims	16	12	15	6
Installment notes or accounts	13	12	8	8
Asset disposals	8	11	3	—
Employees	5	5	2	4

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

2.32

ANALOGIC CORPORATION (JUL)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$208,116	$149,549
Marketable securities, at fair value	12,338	27,088
Accounts and notes receivable, net of allowance for doubtful accounts of $2,295 in 2005, and $2,493 in 2004	55,888	54,483
Accounts receivable from affiliates, net	725	1,015
Inventories	70,026	65,952
Costs related to deferred revenue	13,071	12,723
Refundable and deferred income taxes	14,928	10,861
Other current assets	7,380	6,450
Total current assets	$382,472	$328,121

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

17 (In Part): Income Taxes

During fiscal 2005, the Company identified potential additional tax benefits to be realized for the fiscal years 2000 through 2004 related to federal and state tax credits for research and development expenditures. A study has been completed and amended returns were filed for fiscal 2000 and fiscal 2001, prior to July 31, 2005. Amended returns for fiscal 2002 and fiscal 2003 have been filed subsequent to July 31 2005. The amount of federal and state credits claimed, net of third-party costs incurred related to the tax study, is approximately $6,150. To date, $645 has been received related to fiscal 2000 and fiscal 2001 and has been fully reserved. The fiscal 2004 return and the amended returns are expected to be subject to substantial scrutiny from the IRS and state revenue departments. Accordingly, the Company will recognize all tax benefits related to these tax credits after completion of the IRS and state revenue tax audits or expiration of the respective statutes of limitations. Contingent third-party costs incurred related to the refunds will be recognized as the benefit is recognized, and are approximately $1,200.

The deferred tax assets include US Federal and state net operating losses. In returns filed subsequent to July 31, 2005, the Federal net operating loss was carried back to offset the fiscal 2002 and fiscal 2003 Federal income tax returns and is expected to generate a refund of $4,918. In addition, state tax credits, net of federal tax cost, of $236, are being claimed on amended state tax returns. These additional credits are in addition to the R&D credits discussed above.

Receivables From Affiliates

2.33

LEE ENTERPRISES, INCORPORATED (SEP)

(Thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 7,543	$ 8,010
Accounts receivable, less allowance for doubtful accounts: 2005 $9,612; 2004 $6,374	122,325	62,749
Income taxes receivable	19,439	—
Receivable from associated companies	1,563	1,563
Inventories	22,099	10,772
Deferred income taxes	5,092	6,646
Other	6,809	3,117
Total current assets	$184,870	$92,857

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Investments in Associated Companies

Madison Newspapers, Inc. (In Part)

The Company has a 50% ownership interest in MNI, a company that publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, as well as the related online sites. MNI conducts its business under the trade name Capital Newspapers.

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Accounts receivable from associated companies consist of dividends due from MNI. Fees for editorial, marketing and information technology services provided to MNI by the Company are included in other revenue and totaled $10,164,000, $9,994,000, and $9,665,000 in 2005, 2004, and 2003, respectively. In 2003, the Company also received $694,000 for purchase of a software system.

Contracts

2.34

CURTISS-WRIGHT CORPORATION (DEC)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 59,021	$ 41,038
Receivables, net	244,689	214,084
Inventories, net	146,297	115,979
Deferred tax assets, net	28,844	25,693
Other current assets	11,615	12,460
Total current assets	$490,466	$409,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

C. Revenue Recognition

The realization of revenue refers to the timing of its recognition in the accounts of the Corporation and is generally considered realized or realizable and earned when the earnings process is substantially complete and all of the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the Corporation's price to its customer is fixed or determinable; and 4) collectibility is reasonably assured.

The Corporation records sales and related profits on production and service type contracts as units are shipped and title and risk of loss have transferred or as services are rendered, net of estimated returns and allowances. Sales and estimated profits under certain long-term contracts are recognized under the percentage-of-completion methods of accounting, whereby profits are recorded pro rata, based upon current estimates of direct and indirect costs to complete such contracts. In addition, the Corporation also records sales under certain long-term government fixed price contracts upon achievement of performance milestones as specified in the related contracts. Losses on contracts are provided for in the period in which the losses become determinable. Revisions in profit estimates are reflected on a cumulative basis in the period in which the basis for such revision becomes known. Deferred revenue represents the excess of the billings over cost and estimated earnings on long-term contracts.

F. Progress Payments

Certain long-term contracts provide for the interim billings as costs are incurred on the respective contracts. Pursuant to contract provisions, agencies of the U.S. government and other customers are granted title or a secured interest in the unbilled costs included in unbilled receivables and materials and work-in-process included in inventory to the extent of progress payments. Accordingly, these progress payments received have been reported as a reduction of unbilled receivables and inventories.

3 (In Part): Receivables

Receivables include current notes, amounts billed to customers, claims and other receivables, and unbilled revenue on long-term contracts, consisting of amounts recognized as sales but not billed. Substantially all amounts of unbilled receivables are expected to be billed and collected in the subsequent year.

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The composition of receivables is as follows:

(In thousands)	2005	2004
Billed receivables		
Trade and other receivables	$171,203	$156,891
Less: Allowance for doubtful accounts	(5,453)	(4,011)
Net billed receivables	165,750	152,880
Unbilled receivables		
Recoverable costs and estimated earnings not billed	107,618	79,156
Less: Progress payments applied	(28,679)	(17,952)
Net unbilled receivables	78,939	61,204
Receivables, net	$244,689	$214,084

Finance Receivables

2.35

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

Consolidated Statement of Financial Position

(Dollars in millions)	2005	2004
Current assets		
Cash and cash equivalents	$12,568	$10,053
Marketable securities	1,118	517
Notes and accounts receivable—trade (net of allowances of $267 in 2005 and $277 in 2004)	9,540	10,522
Short-term financing receivables (net of allowances of $422 in 2005 and $681 in 2004)—note F	13,750	15,801
Other accounts receivable (net of allowances of $7 in 2005 and $13 in 2004)	1,138	1,813
Inventories	2,841	3,316
Deferred taxes	1,765	2,413
Prepaid expenses and other current assets	2,941	2,708
Total current assets	$45,661	$47,143

Consolidated Statement of Earnings

(Dollars in millions)	2005	2004	2003
Revenue			
Global Services	$47,357	$46,213	$42,635
Hardware	24,314	31,154	28,239
Software	15,753	15,094	14,311
Global Financing	2,407	2,608	2,826
Enterprise Investments/Other	1,303	1,224	1,120
Total revenue	91,134	96,293	89,131
Cost			
Global Services	35,070	35,038	32,304
Hardware	15,771	21,976	20,453
Software	1,972	1,933	1,943
Global Financing	1,091	1,046	1,249
Enterprise Investments/Other	698	731	635
Total cost	54,602	60,724	56,584
Gross profit	36,532	35,569	32,547
Expense and other income			
Selling, general and administrative	21,314	20,079	18,601
Research, development and engineering	5,842	5,874	5,314
Intellectual property and custom development income	(948)	(1,169)	(1,168)
Other (income) and expense	(2,122)	(23)	238
Interest expense	220	139	145
Total expense and other income	24,306	24,900	23,130
Income from continuing operations before income taxes	$12,226	$10,669	$ 9,417

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Revenue (In Part)

Financing

Finance income attributable to sales-type leases, direct financing leases and loans is recognized on the accrual basis using the effective interest method. Operating lease income is recognized on a straight-line basis over the term of the lease.

Allowance for Uncollectible Receivables (In Part)

Financing

Financing receivables include sales-type leases, direct financing leases, and loans. Below are the methodologies the company uses to calculate both its specific and its unallocated reserves, which are applied consistently to its different portfolios.

Specific

The company reviews all financing accounts receivables considered at risk on a quarterly basis. The review primarily consists of an analysis based upon current information available about the client, such as financial statements, news reports and published credit ratings, as well as the current economic environment, collateral net of repossession cost and prior collection history. For loans that are collateral dependent, impairment is measured using the fair value of the collateral when foreclosure is probable. Using this information, the company determines the expected cash flow for the receivable and calculates a recommended estimate of the potential loss and the probability of loss. For those accounts in which the loss is probable, the company records a specific reserve.

Unallocated

The company records an unallocated reserve that is calculated by applying a reserve rate to its different portfolios, excluding accounts that have been specifically reserved. This reserve rate is based upon credit rating, probability of default, term, asset characteristics, and loss history.

Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Certain receivables for which the company recorded specific reserves may also be placed on non-accrual status. Non-accrual assets are those receivables (impaired loans or non-performing leases) with specific reserves and other accounts for which it is likely that the company will be unable to collect all amounts due according to original terms of the lease or loan agreement. Income recognition is discontinued on these receivables. Cash collections are first applied as a reduction to principal outstanding. Any cash received in excess of principle payments outstanding is recognized as interest income. Receivables may be removed from non-accrual status, if appropriate, based upon changes in client circumstances.

Estimated Residual Values of Lease Assets

The recorded residual values of the company's lease assets are estimated at the inception of the lease to be the expected fair value of the assets at the end of the lease term. The company periodically reassesses the realizable value of its lease residual values. Any anticipated increases in specific future residual values are not recognized before realization through remarketing efforts. Anticipated decreases in specific future residual values that are considered to be other-than-temporary are recognized immediately upon identification and are recorded as an adjustment to the residual value estimate. For sales-type and direct financing leases, this reduction lowers the recorded net investment and is recognized as a loss charged to finance income in the period in which the estimate is changed, as well as an adjustment to unearned income to reduce future period finance income.

D (In Part): Financial Instruments (Excluding Derivatives)

Fair Value of Financial Instruments (In Part)

Cash and cash equivalents, marketable securities and derivative financial instruments are recognized and measured at fair value in the company's financial statements. Notes and other accounts receivable and other investments are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and short-term debt are financial liabilities with carrying values that approximate fair value. The carrying amount of long-term debt is approximately $15.4 billion and $14.8 billion and the estimated fair value is $16.7 billion and $15.7 billion at December 31, 2005 and 2004, respectively.

In the absence of quoted prices in active markets, considerable judgment is required in developing estimates of fair value. Estimates are not necessarily indicative of the amounts the company could realize in a current market transaction. The following methods and assumptions were used to estimate fair values:

Loans and Financing Receivables

Estimates of fair value are based on discounted future cash flows using current interest rates offered for similar loans to clients with similar credit ratings for the same remaining maturities.

F. Financing Receivables

(Dollars in millions)	2005	2004
Short-term		
Net investment in sales-type leases	$ 4,435	$ 5,074
Commercial financing receivables	5,053	5,571
Client loan receivables	3,752	4,485
Installment payment receivables	510	641
Other non-global financing related	—	30
Total	$13,750	$15,801
Long-term		
Net investment in sales-type leases	$ 5,393	$ 6,049
Commercial financing receivables	17	139
Client loan receivables	3,901	4,491
Installment payment receivables	317	271
Total	$ 9,628	$10,950

Net investment in sales-type leases is for leases that relate principally to the company's equipment and are for terms ranging from two to seven years. Net investment in sales-type leases includes unguaranteed residual values of $792 million and $836 million at December 31, 2005 and 2004, respectively, and is reflected net of unearned income of $939 million and $1,077 million and of allowance for uncollectible accounts of $176 million and $269 million at those dates, respectively. Scheduled maturities of minimum lease payments outstanding at December 31, 2005, expressed as a percentage of the total, are approximately: 2006, 48 percent; 2007, 28 percent; 2008, 17 percent; 2009, 5 percent; and 2010 and beyond, 2 percent.

Commercial financing receivables arise primarily from inventory and accounts receivable financing for dealers and remarketers of IBM and non-IBM products. Payment terms for inventory financing generally range from 30 to 75 days. Payment terms for accounts receivable financing generally range from 30 to 90 days.

Client loan receivables relate to loans that are provided by Global Financing to the company's clients to finance the purchase of the company's software and services. Separate contractual relationships on these financing arrangements are for terms ranging from two to seven years requiring straight-line payments over the term. Each financing contract is priced independently at competitive market rates.

The company has a history of enforcing the terms of these separate financing agreements.

The company did not have financing receivables held for sale as of December 31, 2005 and 2004.

J. Securitization of Receivables

The company periodically sells receivables through the securitization of trade receivables, loans, and leases. The company retains servicing rights in the securitized receivables for which it receives a servicing fee. Any gain or loss incurred as a result of such sales is recognized in the period in which the sale occurs.

During 2005, the company renewed its trade receivables securitization facility that allows for the ongoing sale of up to $500 million of trade receivables. This facility was put in place in 2001 as an uncommitted facility; however, it was converted to a committed facility in 2004. The facility, which renews annually, was put in place to provide backup liquidity and can be accessed on a three days' notice. The company did not have any amounts outstanding under the trade receivables securitization facility at December 31, 2005 or 2004. During 2005, the company securitized $6.3 million of trade receivables and retained the servicing responsibilities for which it received a servicing fee. In 2005, both the pre-tax loss on the sale of receivables and the servicing fees received were insignificant. No trade receivables were securitized in 2004.

The company utilizes certain of its financing receivables as collateral for nonrecourse borrowings. Financing receivables pledged as collateral for borrowings were $318 million and $249 million at December 31, 2005 and 2004, respectively.

Retained Interest in Sold Receivables

2.36

AMERICAN STANDARD COMPANIES INC. (DEC)

(Amounts in millions)	2005	2004
Current assets:		
Cash and cash equivalents	$ 390.7	$ 229.4
Accounts receivable, less allowance for doubtful accounts—$46.9 in 2005; $46.2 in 2004	1,161.3	1,154.5
Inventories	1,078.2	1,087.2
Future income tax benefits	99.3	114.5
Retained interest in securitization program	208.4	174.5
Other current assets	128.3	129.7
Total current assets	$3,066.2	$2,889.8

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Transfers of Financial Instruments

Sales and transfers of financial instruments are accounted for under Statement of Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"). The Company sells interests in accounts receivables to special purpose entities created as part of accounts receivable financing facilities established by the Company in Europe and the U.S. with major international banks (see Note 8 of Notes to Financial Statements). Receivables sold under such arrangements are removed from the balance sheet at the time they are sold since the transactions meet the sale criteria per FAS 140. Specifically, the receivables are legally isolated from the Company, the purchasers have the right to pledge or exchange the receivables and the purchasers obtain effective control over the receivables. Any retained interests in receivables sold are recorded by the Company at fair value and recorded in other current assets.

Note 8. Accounts Receivable Securitization Agreements

To reduce its borrowing cost, in May and September 2002 the Company established accounts receivable financing facilities in Europe and the U.S. with major international banks. As part of these facilities, the Company formed, special-purpose entities (in Europe, the "ESPE;" in the U.S., the "USSPE;" collectively, the "SPEs") that are included in the consolidated financial statements of the Company for the sole purpose of buying and selling receivables generated by the Company. Under these facilities the Company irrevocably and without recourse, transfers all eligible accounts receivable to the SPEs, which in turn, sell them, or undivided ownership interests in them, to conduits administered by the banks. The assets of the SPEs are not available to pay the claims of the Company or any of its subsidiaries. The Company retains a subordinated interest in the receivables sold of approximately 8% for ESPE and 51% for USSPE. The conduits obtain the funds to purchase the interests in the receivables, other than the retained interest, by selling commercial paper to third-party investors. Advances from the conduits to the SPEs are limited to approximately $501.0 million (€275.0 million, or approximately $326.0 million at December 31, 2005 exchange rates under the European facility, and $175.0 million under the U.S. facility). The Company retains responsibilities for the collection and administration of receivables subject to these facilities. The Company is currently in compliance with these covenants. The European facility is subject to the maintenance of specified debt-rating levels, and for the U.S. facility, the maintenance of certain financial covenants. The Company is currently in compliance with the covenants. In addition, these facilities are subject to annual renewals. The European facility will require renewal in May 2006 and the U.S. facility in September 2006. The Company has the ability to renew these facilities and intends to renew them upon their expiration.

The receivables sold are removed from the balance sheet since they meet the applicable criteria of FAS 140. The Company's retained interest is recorded at fair value in the Company's Consolidated Balance Sheet. To the extent that the cash received and value of the retained interest is less than the net book value of the receivables sold, losses are recognized at the time of the sale. Those losses amounted to $47.9 million, $40.2 million and $41.7 million for the years ended December 31, 2005, 2004 and 2003, respectively and are included in other expense. The receivables represented by the retained interest are exposed to the risk of loss for any uncollectible amounts in the pool of receivables sold under this arrangement.

Following is a summary of receivables subject to the financing facilities:

	2005			2004		
(Dollars in millions)	ESPE	USSPE	Total	ESPE	USSPE	Total
Outstanding balances of receivables sold to SPEs	$373.4	$347.1	$720.5	$453.8	$265.7	$719.5
Net retained interest	$ 31.4	$177.0	$208.4	$ 51.9	$122.6	$174.5
Advances from conduits	$306.4	$172.2	$478.6	$368.8	$135.1	$503.9

The advances from conduits include amounts due to the conduits under the European and U.S. accounts receivable facilities for collections of receivables under the servicing agreement. The decrease in advances from conduits was comprised of a $46.9 million foreign exchange translation effect and $15.5 million reduction in the amount of receivables financed.

As of December 31, 2005 and 2004, the interest rates on amounts outstanding under the European facility were 2.79% and 2.70%, and under the U.S. facility were 4.27% and 2.24%, respectively.

Note 13 (In Part): Financial Instruments

To convert Pounds Sterling financing under the European accounts receivable securitization program to U.S. dollar equivalent financing, the Company enters into currency-forward contracts that effectively fix the transaction costs in U.S. dollars. These forward contracts are defined as speculative and accordingly, changes in the market value of the contracts are recorded in other income or expense as incurred, with a corresponding increase or decrease in other assets. The recorded gains or losses are essentially offset by foreign exchange gains or losses on the Company's Sterling-denominated debt.

The notional amount and estimated fair value of interest rate swaps and hedging contracts at December 31, 2005 and 2004 are as follows:

	2005		2004	
(Dollars in millions)	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swaps	$225	$ 2	$300	$11
Commodity-forward contracts	128	28	95	12
Foreign-currency-forward contracts related to receivables securitization	53	1	69	1

Insurance Claims

2.37

WINN-DIXIE STORES, INC. (JUN)

(Dollar amounts in thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 62,141	$ 56,818
Marketable securities	19,656	19,275
Trade and other receivables, less allowance for doubtful accounts of $10,668 ($2,539 at June 30, 2004)	206,297	109,051
Insurance claims receivable	8,656	—
Income tax receivable	30,084	49,148
Merchandise inventories, less LIFO reserve of $193,001 ($219,270 at June 30, 2004)	798,414	940,529
Prepaid expenses and other current assets	82,713	24,814
Assets held for sale	—	51,034
Deferred income taxes	—	100,129
Total current assets	$1,207,961	$1,350,798

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Self-Insurance

The Company self-insures for certain insurable risks, primarily workers' compensation, business interruptions, automobile liability, general liability, and property losses, as well as employee medical coverage. Insurance coverage is generally obtained for catastrophic property and casualty exposures, as well as risks that require insurance by law or contract. Liabilities are determined using independent actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. When applicable, anticipated recoveries are recorded in the same lines in the Consolidated Statements of Operations in which the losses were recorded, based on management's best estimate of amounts due from insurance providers.

The Company's accruals for insurance reserves reflect certain actuarial assumptions and management judgments regarding claim reporting and settlement patterns, judicial decisions, legislation, economic conditions and the impact of the Chapter 11 filings. Unanticipated changes in these factors may materially affect the Consolidated Financial Statements.

17. Self-Insurance

The Company's primary commercial general liability, business interruption, workers' compensation, property loss and auto liability insurance coverages were issued under arrangements with insurance carriers pursuant to which the Company effectively self-insures such primary coverage. Above the respective primary policy limits, the Company maintains commercial excess umbrella and excess workers' compensation liability stop-loss coverages on a fully-insured basis. Excess insurance applies above retentions of $2.0 million per occurrence for automobile and general liability, $1.5 million per occurrence for workers' compensation, $10.0 million in the aggregate for property losses and business interruption losses related to named windstorms and $5.0 million in the aggregate for all other property losses. The Company also self-insures its employee medical benefits program.

During fiscal 2005, four hurricanes caused inventory damage, property damage, power outages and store closings in much of the Company's operating area, resulting in total losses exceeding the self-insured retention limit for named windstorm coverage. As of June 29, 2005, the Company had received insurance recoveries of $50.0 million and had recorded an insurance receivable of $8.7 million. Additional recoveries are expected when the claim is finalized. Due to the nature of the policy provisions, specifically a provision by which retail inventory losses are recoverable at the retail sales price less discounts and other deductions, the Company recognized no significant impact to cost of sales or operating and administrative expenses due to these losses.

As of June 29, 2005, the Court had not authorized payment of pre-petition general liability claims. As such, the accrual for insurance reserves related to general liability claims incurred prior to the Petition Date in the amount of $71.6 million is included in liabilities subject to compromise in the accompanying balance sheet as of June 29, 2005.

All other accruals for insurance reserves, including general liability claims incurred subsequent to February 21, 2005, are included in reserve for self-insurance liabilities in the accompanying Consolidated Balance Sheets.

Installment Receivables

2.38

LEUCADIA NATIONAL CORPORATION (DEC)

(Dollars in thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 386,957	$ 277,238
Investments	1,323,562	1,084,745
Trade, notes and other receivables, net	377,216	160,234
Prepaids and other current assets	140,880	27,850
Current assets of discontinued operations	—	509,882
Total current assets	$2,228,615	$2,059,949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Trade, Notes and Other Receivables, Net

A summary of current trade, notes and other receivables, net at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Current trade, notes and other receivables, net		
Trade receivables	$115,538	$73,639
Receivable from SBC	198,500	—
Federal income tax receivable	—	3,858
Receivable from Pershing	—	71,294
Receivable from EagleRock	16,636	—
Instalment loan receivables	1,257	2,035
Receivables related to securities	39,387	5,999
Receivables relating to real estate activities	5,602	2,988
Other	15,393	8,211
	392,313	168,024
Allowance for doubtful accounts	(15,097)	(7,790)
Total current trade, notes and other receivables, net	$377,216	$160,234

Sale of Assets

2.39

WENDY'S INTERNATIONAL, INC. (DEC)

(Dollars in thousands)	2005	2004
Current assets		
Cash and cash equivalents	$393,241	$176,749
Accounts receivable, net	138,999	127,158
Notes receivable, net	11,746	11,626
Deferred income taxes	29,043	27,280
Inventories and other	62,868	56,010
Advertising fund restricted assets	53,866	60,021
Assets held for disposition	66,803	0
Total current assets	$756,566	$458,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Notes Receivable

Notes receivable arise primarily from the sale of certain real estate and equipment to franchisees as well as agreements by the Company, under certain circumstances, to a structured repayment plan for certain franchisee fees and past due franchisee obligations. The need for a reserve for uncollectible amounts is reviewed on a specific franchisee basis using information available to the Company, including past due balances and the financial strength of the franchisee. Uncollectible amounts for both principal and interest are provided for as those amounts are identified and were $4.0 million and $1.6 million at January 1, 2006 and January 2, 2005. The carrying amount of notes receivable approximates fair value.

RECEIVABLES SOLD OR COLLATERALIZED

2.40 Table 2-6 shows that 2005 annual reports of 134 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. Of those 134 survey companies, eight disclosed a factoring agreement and 69 disclosed that the receivables were transferred to a special-purpose entity.

2.41 SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by *SFAS No. 133* and as replaced by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing, *SFAS No. 140* revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures. The Standard carries over most of the provisions of *SFAS No. 125* without reconsideration. Additionally, *SFAS No. 140* requires a debtor to:

(a) reclassify financial assets pledged as collateral and report those assets in its statement of financial position separately from other assets not so encumbered if the secured party has the right by contract or custom to sell or repledge the collateral, and

(b) disclose assets pledged as collateral that have not been reclassified and separately reported in the statement of financial position.

Also, *SFAS No. 140* requires a secured party to disclose information about collateral that it has accepted and is permitted by contract or custom to sell or repledge. The required disclosure includes the fair value at the end of the period of that collateral and the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral.

2.42 Effective for fiscal years that begin after September 15, 2006, SFAS No. 156, *Accounting for Servicing of Financial Assets*, amends *SFAS No. 140* to require that all separately recognized servicing assets and liabilities be initially measured at fair value. Further, *SFAS No. 156* permits, but does not require, the subsequent measurement of servicing assets and liabilities at fair value. Moreover, *SFAS No. 156* requires additional disclosures and separate balance sheet presentation of the carrying amounts of servicing assets and liabilities that are subsequently measured at fair value.

2.43 Financial statement presentation and reporting of the sale of receivables is set forth in paragraphs 13d and 13e of *SOP 01-6*. In addition to requiring disclosure of the amount of gains or losses on the sale of trade receivables, receivables held for sale should be presented as a separate category either in the balance sheet or in the notes to the financial statements.

2.44 Examples of disclosures made in the reports of the survey companies having sold or collateralized receivables follow.

2.45

TABLE 2-6: RECEIVABLES SOLD OR COLLATERALIZED

	2005	**2004**	**2003**	**2002**
Receivables sold				
With recourse	15	20	23	24
With limited recourse	8	10	14	14
Without recourse	31	40	36	44
Recourse not discussed	72	58	65	61
	126	**128**	**138**	**143**
Receivables used as collateral	8	11	17	17
	134	**139**	**155**	**160**
No reference to receivables sold or collateralized	466	461	445	440
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold With Recourse

2.46

BRUNSWICK CORPORATION (DEC)

(In millions)	2005	2004
Current assets		
Cash and cash equivalents, at cost, which approximates market	$ 487.7	$ 499.8
Accounts and notes receivable, less allowances of $22.7 and $29.0	522.4	463.2
Inventories		
Finished goods	426.2	389.9
Work-in-process	298.5	260.5
Raw materials	149.9	136.4
Net inventories	874.6	786.8
Deferred income taxes	274.8	292.7
Prepaid expenses and other	75.5	56.2
Current assets	$2,235.0	$2,098.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Accounts Receivable and Allowance for Doubtful Accounts (In Part)

Accounts receivable also include domestic accounts receivable sold with full and partial recourse by the Company's Mercury Marine division to Brunswick Acceptance Company LLC, as discussed in Note 7. Financial Services. As of December 31, 2005 and 2004, the Company had a retained interest in $44.5 million and $45.7 million, respectively, of the total accounts receivable sold to BAC. The Company's maximum exposure as of December 31, 2005 and 2004 related to these amounts was $28.5 million and $25.0 million, respectively. In accordance with SFAS No. 140, "Accounting for

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Company treats the sale of receivables in which the Company retains an interest as a secured obligation. Accordingly, the amount of the Company's maximum exposure was recorded in Accounts and notes receivable, and Accrued expenses in the Consolidated Balance Sheets. These balances were included in the amounts in Note 9. Commitments and Contingencies.

7. Financial Services

The Company has a joint venture, Brunswick Acceptance Company, LLC (BAC), with GE Commercial Finance (GECF). Under the terms of the joint venture agreement, BAC provides secured wholesale floor-plan financing to the Company's boat and engine dealers. BAC also purchases and services a portion of Mercury Marine's domestic accounts receivable relating to its boat builder and dealer customers.

In January of 2003, the Company's subsidiary, Brunswick Financial Services Corporation (BFS), invested $3.3 million in BAC, which represented a 15 percent ownership interest. On July 2, 2003, BFS contributed an additional $19.5 million to increase its equity interest in BAC to 49 percent, as provided for by the terms of the joint venture agreement. BFS's contributed equity is adjusted monthly to maintain a 49 percent equity interest in accordance with the capital provisions of the joint venture agreement. BFS's investment in BAC is accounted for by the Company under the equity method and is recorded as a component of Investments in its Consolidated Balance Sheets. The Company has funded its investment in BAC with a combination of cash contributions and reinvested earnings, which totaled $16.3 million, $13.9 million and $22.0 million for the years ended December 31, 2005, 2004 and 2003, respectively. The Company records BFS's share of income or loss in BAC based on its ownership percentage in the joint venture in Equity earnings in its Consolidated Statements of Income.

BAC is funded in part through a loan from GECF and a securitization facility arranged by General Electric Capital Corporation, a GECF affiliate, and in part by a cash equity investment from both GECF (51 percent) and BFS (49 percent). BFS's total investment in BAC at December 31, 2005 and 2004, was $52.2 million and $35.9 million, respectively. BFS's exposure to losses associated with BAC financing arrangements is limited to its funded equity in BAC.

BFS recorded income related to the operations of BAC of $9.7 million, $4.3 million and $1.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. These amounts exclude the discount expense on the sale of Mercury Marine's accounts receivable to the joint venture noted below.

Since 2003, the Company has sold a significant portion of its domestic Mercury Marine accounts receivable to BAC. Accounts receivable totaling $913.3 million, $927.4 million and $501.2 million were sold to BAC in 2005, 2004 and 2003 respectively. Discounts of $7.0 million, $6.4 million and $3.7 million for the years ended December 31, 2005, 2004 and 2003, respectively, have been recorded as an expense in Other expense, net, in the Consolidated Statements of Income. The outstanding balance for receivables sold to BAC was $96.5 million as of December 31, 2005, down from $103.7 million as of December 31, 2004. Pursuant to the joint venture agreement, BAC reimbursed Mercury Marine $2.6 million, $2.3 million and $0.9 million in 2005, 2004 and 2003, respectively, for the related credit, collection and administrative costs incurred in connection with the servicing of such receivables.

As of December 31, 2005 and 2004, the Company had a retained interest in $44.5 million and $45.7 million of the total accounts receivable sold to BAC. The Company's maximum exposure as of December 31, 2005 and 2004, related to these amounts was $28.5 million and $25.0 million, respectively. In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Company treats the sale of receivables in which the Company retains an interest as a secured obligation. Accordingly, the amount of the Company's maximum exposure was recorded in Accounts and notes receivable, and Accrued expenses in the Consolidated Balance Sheets. These balances were included in the amounts in Note 9. Commitments and Contingencies.

9 (In Part): Commitments and Contingencies

Financial Commitments

The Company has entered into guarantees of indebtedness of third parties, which are primarily comprised of arrangements with financial institutions in connection with customer financing programs. Under these arrangements, the Company has guaranteed customer obligations to the financial institutions in the event of customer default, generally subject to a maximum amount, which is less than total obligations outstanding. The Company has also guaranteed payments to third parties that have purchased customer receivables from the Company and, in certain instances, has guaranteed secured term financing of its customers. In most instances, upon repurchase of the debt obligation, the Company receives rights to the collateral securing the financing. The maximum potential liability associated with these customer financing arrangements was approximately $121 million and approximately $129 million at December 31, 2005 and 2004, respectively. Any potential payments on these customer financing arrangements would extend over several years in accordance with the Company's agreements.

The Company has also entered into arrangements with third-party lenders where it has agreed, in the event of a default by the customer, to repurchase from the third-party lender Company products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The Company's risk under these arrangements is mitigated by the value of the products repurchased as part of the transaction. The maximum amount of collateral the Company could be required to purchase was approximately $208 million and approximately $188 million at December 31, 2005 and 2004, respectively.

Receivables Sold With Limited Recourse

2.47

BECKMAN COULTER, INC. (DEC)

(In millions)	2005	2004
Current assets		
Cash and cash equivalents	$ 57.6	$ 67.9
Trade and other receivables, net	601.6	653.5
Inventories	461.8	463.2
Deferred income taxes	62.8	44.5
Prepaids and other current assets	49.8	50.5
Total current assets	$1,233.6	$1,279.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Sale of Assets

During 2005, 2004 and 2003, the Company sold certain receivables ("Receivables") as part of its plan to reduce debt. The net book value of Receivables sold in 2005, 2004 and 2003 was $117.1 million, $116.9 million and $104.2 million, respectively, and for which the Company received approximately $119.1 million, $118.9 million and $107.5 million, respectively, in cash proceeds. Approximately 59.7% and 70% of those sales took place in Japan during the years ended 2005 and 2004, respectively. These transactions were accounted for as sales and as a result the related receivables have been excluded from the accompanying consolidated balance sheets.

The agreements underlying the Receivables sales in the U.S. contain provisions that indicate the Company is responsible for up to 15% of end-user customer payment defaults on sold Receivables. Accordingly, the Company accrued a reserve for the probable and reasonably estimable portion of these liabilities. Additionally, in the U.S. the Company services the sold Receivables whereby it continues collecting payments from the end user customer on the behalf of the purchaser of the Receivables. The Company estimates the fair value of this service arrangement as a percentage of the sold Receivables and amortizes this amount to income over the estimated life of the service period. At December 31, 2005 and 2004, there was $1.0 million of deferred service fees included in accrued expenses on the consolidated balance sheets. For the years ended December 31, 2005, 2004 and 2003, there was $0.3 million of deferred service fees amortized to income.

2.48

PITNEY BOWES INC. (DEC)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 243,509	$ 316,217
Short-term investments	56,193	3,933
Accounts receivable, less allowances: 2005, $46,261; 2004, $50,254	658,198	567,772
Finance receivables, less allowances: 2005, $52,622; 2004, $70,958	1,342,446	1,396,269
Inventories	220,918	206,697
Other current assets and prepayments	221,051	197,874
Total current assets	$2,742,315	$2,688,762

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands or as otherwise indicated)

17 (In Part): Guarantees

The Company applies FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to its agreements that contain guarantees or indemnifications. The provisions of FIN No. 45 require that at the time a company issues a guarantee, the Company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives.

In connection with its Capital Services programs, the Company has sold finance receivables and entered into guarantee contracts with varying amounts of recourse. See Off-Balance Sheet Items in Note 19 to the consolidated financial statements.

19 (In Part): Financial Services

Off-Balance Sheet Items

Finance Receivables Sales

As part of the Company's Capital Services programs, the Company has from time-to-time sold, through securitizations, net finance receivables with limited recourse. In these transactions, the Company has surrendered control over the transferred assets in accordance with paragraph 9 of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and received a cash payment from the transferee. Specifically, the finance receivables were sold to a bankruptcy remote limited liability company. In certain cases, at the time of sale, the Company obtained legal counsel's opinion that the assets were isolated and that the sale qualified as a true sale at law. Under the terms of the sale, the transferee has the right to pledge or exchange the assets it received. There are no conditions that both constrain the transferee from taking advantage of its right to pledge or exchange and provide more than a trivial benefit to the transferor. The Company does not maintain effective control over the transferred assets.

The Company has accounted for these transactions as a sale, recognizing assets obtained and liabilities incurred in consideration as proceeds of the sale. Any resulting gain or loss was recognized in income at the time of sale. The maximum risk of loss in these transactions arises from the possible non-performance of lessees to meet the terms of their contracts. The Company believes adequate provisions for losses have been established for receivables sold which may become uncollectible and for which it has recourse obligation, in accordance with paragraph 113 of SFAS No. 140.

The Company has sold net finance receivables and in selective cases entered into guarantee contracts with varying amounts of recourse in privately placed transactions with unrelated third-party investors. The uncollected principal balance of receivables sold and guarantee contracts totaled $32 million and $99 million at December 31, 2005 and 2004, respectively. In accordance with GAAP, the Company does not record these amounts as liabilities in its Consolidated Balance Sheets.

The Company's maximum risk of loss on these net financing receivables and guarantee contracts arises from the possible non-performance of lessees to meet the terms of their contracts and from changes in the value of the underlying equipment. These contracts are secured by the underlying equipment value, and supported by the creditworthiness of its customers. At December 31, 2005 and 2004, the underlying equipment value exceeded the sum of the uncollected principal balance of receivables sold and the guarantee contracts. As part of the Company's review of its risk exposure, the Company believes it has made adequate provision for sold receivables and guarantee contracts that may not be collectible. See Notes 17 and 21 to the consolidated financial statements.

21 (In Part): Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Transfer of Receivables With Recourse

The fair value of the recourse liability represents the estimate of expected future losses and has accordingly been recorded in the Company's Consolidated Balance Sheets. The Company periodically evaluates the adequacy of reserves and estimates of expected losses; if the resulting evaluation of expected losses differs from the actual reserve, adjustments are made to the reserve.

The estimated fair value of the Company's financial instruments follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities	$ 122,644	$ 122,644	$ 39,257	$ 39,257
Loans receivable	$ 371,140	$ 371,140	$ 410,699	$ 410,699
Long-term debt	$(3,893,329)	$(3,854,295)	$(3,192,979)	$(3,270,580)
Interest rate swaps	$ (766)	$ (766)	$ (2,255)	$ (2,255)
Foreign currency exchange contracts	$ (4,374)	$ (4,374)	$ (6,247)	$ (6,247)
Transfer of receivables with recourse	—	—	$ (354)	$ (354)

Receivables Sold Without Recourse

2.49

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Supplementary Information

Sales of Accounts Receivable

Since 1997, the Company has routinely sold, without recourse, a participation in pools of qualifying trade accounts receivable. According to the agreements of the various programs. Dow maintains the servicing of these receivables. As receivables in the pools are collected, new receivables are added. The maximum amount of receivables available for sale in the pools was $1,593 million in 2005, $1,681 million in 2004 and $1,600 million in 2003. The average monthly participation in the pools was $349 million in 2005, $535 million in 2004 and $889 million in 2003.

The net cash flow in any given period represents the discount on sales, which is recorded as interest expense. The average monthly discount was approximately $0.9 million in 2005, $0.5 million in 2004 and $1.3 million in 2003.

Sale of Noncurrent Receivable

During 2003, the Company sold, without recourse, a noncurrent receivable representing the Company's interest in life insurance policies held on a group of key employees for $335 million. The resulting discount from the sale of the Company's interest in these life insurance policies was $29 million.

2.50

GREIF, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Sale of European Accounts Receivable

To further reduce borrowing costs, the Company entered into an arrangement to sell on a regular basis up to €55 million ($66.0 million at October 31, 2005) of certain European accounts receivable of its European subsidiaries to a major international bank. During October 2005, the Company amended this arrangement to increase its aggregate accounts receivable limit from €55 million to €90 million ($108.0 million at October 31, 2005). As of October 31, 2005, €56.9 million ($68.3 million) of outstanding accounts receivable were sold under this arrangement. The Company will continue to service these accounts receivable, although no interests have been retained. The acquiring international bank has full title and interest to the accounts receivable, will be free to further dispose of the accounts receivable sold to it and will be fully entitled to receive and retain for its own account the total collections of such accounts receivable. These accounts receivable have been removed from the balance sheet since they meet the applicable criteria of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Receivables Used as Collateral

2.51

BOSTON SCIENTIFIC CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note F (In Part): Borrowings and Credit Arrangements

Revolving Credit Facilities (In Part)

During 2005, the Company decreased its credit and security facility that is secured by its U.S. trade receivables from $400 million to $100 million, effective April 30, 2005. During the first quarter of 2006, the Company expects to increase this facility from $100 million to $350 million. The credit and security facility terminates in August 2006. Borrowing availability under this facility changes based upon the amount of eligible receivables, concentration of eligible receivables and other factors. Certain significant changes in the quality of the Company's receivables may require it to repay borrowings immediately under the facility. The credit agreement required the Company to create a wholly-owned entity, which is consolidated. This entity purchases the Company's U.S. trade accounts receivable and then borrows from two third-party financial institutions using these receivables as collateral. The receivables and related borrowings remain on the balance sheet because the Company has the right to prepay any borrowings outstanding and effectively retain control over the receivables. Accordingly, pledged receivables are included as trade accounts receivable, net, while the corresponding borrowings are included as debt on the consolidated balance sheets. There were no outstanding borrowings under the revolving credit and security facility as of December 31, 2005 or December 31, 2004.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

2.52 Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion—1967*, states that such allowances should be deducted from the related receivables and appropriately disclosed.

2.53

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	2005	2004	2003	2002
Allowance for doubtful accounts	325	317	327	286
Allowance	141	155	154	173
Allowance for uncollectible accounts	25	17	20	15
Allowance for losses	13	16	14	13
Reserve	13	14	11	10
Reserve for doubtful accounts	4	4	2	3
Other caption titles	4	11	10	23
	525	**534**	**538**	**523**
Receivables shown net	23	21	21	28
No reference to doubtful accounts	52	45	41	49
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

2.54 Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing*, states that the "primary basis of accounting for inventories is cost . . ." but "a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost . . ." Approximately 82% of the survey companies use lower of cost or market, an acceptable basis for pricing inventories when circumstances require a departure from cost, to price all or a portion of their inventories.

2.55 Table 2-8 shows the captions frequently used to identify the nature of inventory items owned by the survey companies. 100 survey companies either had no inventory items or did not disclose details as to the nature of inventory items.

2.56 Table 2-9 summarizes the methods used by the survey companies to determine inventory costs and indicates the portion of inventory cost determined by LIFO. As indicated in Table 2-9, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-9 include specific identification and accumulated costs for contracts in process.

2.57 A number of survey companies made supplemental disclosures concerning inventories, including information about items such as valuation accounts, obsolescence, and the effects of using LIFO. 26 survey companies disclosed that certain LIFO inventory layers were reduced which increased net income due to the matching of older, lower historical costs with current sales dollars. Nine survey companies disclosed the effect of income from using LIFO rather than FIFO or average cost to determine inventory cost.

2.58 Valuation accounts are used to adjust an inventory cost. 191 survey companies disclosed that they have inventory valuation accounts. 129 companies disclosed that a valuation account was used to reduce inventories to a LIFO basis. 55 survey companies disclosed that a valuation account was used for inventory obsolescence.

2.59 Table 2-10 shows, by industry classification, the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification in the current year.

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

2.61 The decrease in the number of survey companies using LIFO was caused in part by the fact that more companies deleted from the survey used LIFO than those companies selected as replacements. Five survey companies changed from the LIFO method to another method of determining inventory cost.

2.62 Examples of presentations and disclosures for inventories follow.

2.63

TABLE 2-8: INVENTORY CAPTIONS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Finished goods	349	354	348	339
Finished goods and work in process	28	28	27	30
Work in process	272	264	249	278
Work in process and raw materials	43	47	60	29
Raw materials	216	212	216	193
Raw materials and supplies/parts	93	105	113	117
Supplies and/or materials	99	91	83	89

2.64

TABLE 2-9: INVENTORY COST DETERMINATION

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Methods				
First-in first-out (FIFO)	385	386	384	380
Last-in first-out (LIFO)	229	239	251	255
Average cost	155	169	167	165
Other	30	27	31	28
Use of LIFO				
All inventories	16	20	26	17
50% or more of inventories	113	108	120	121
Less than 50% of inventories	76	85	77	88
Not determinable	24	26	28	29
Companies Using LIFO	**229**	**239**	**251**	**255**

2.65

TABLE 2-10: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	2005		2004	
	No.	%(1)	No.	%(1)
Advertising, marketing	—	—	—	—
Aerospace	5	29	5	29
Apparel	6	46	7	47
Beverages	4	40	4	40
Building materials, glass	6	75	5	63
Chemicals	22	81	23	85
Computer and data services	—	—	—	—
Computer peripherals	—	—	—	—
Computer software	—	—	—	—
Computers, office equipment	1	9	1	9
Diversified outsourcing services	—	—	—	—
Electronics, electrical equipment	12	28	13	31
Engineering, construction	1	7	1	8
Entertainment	—	—	—	—
Food	11	48	12	52
Food and drug stores	12	71	13	81
Food services	—	—	—	—
Forest and paper products	14	74	14	70
Furniture	8	73	8	80
General merchandisers	6	67	9	90
Health care	—	—	—	—
Homebuilders	—	—	—	—
Hotels, casinos, resorts	—	—	—	—
Industrial and farm equipment	21	58	25	69
Medical products and equipment	3	25	3	23
Metal products	14	78	15	79
Metals	12	80	12	80
Mining, crude-oil production	2	17	2	14
Miscellaneous	1	20	1	17
Motor vehicles and parts	8	54	9	60
Network communications	—	—	—	—
Petroleum refining	12	86	11	79
Pharmaceuticals	4	40	4	40
Publishing, printing	11	52	9	43
Rubber and plastic products	5	71	4	57
Scientific, photographic, and control equipment	4	21	5	26
Semiconductors	—	—	—	—
Soaps, cosmetics	3	43	3	43
Specialty retailers	5	28	6	33
Telecommunications	—	—	—	—
Temporary help	—	—	—	—
Textiles	3	75	3	75
Tobacco	3	60	3	50
Toys, sporting goods	—	—	—	—
Transportation equipment	2	50	2	50
Trucking, truck leasing	—	—	—	—
Waste management	—	—	—	—
Wholesalers	8	53	7	44
Total Companies	**229**	**38**	**239**	**40**

(1) This represents the percentage of survey companies that use LIFO in a particular industry classification. For example, 2005 data shows that 5 companies in the Aerospace industry use LIFO. Those 5 companies represent 29% of the total number of Aerospace companies surveyed.

First-In First-Out

2.66

ROCKWELL AUTOMATION, INC. (SEP)

(In millions)	2005	2004
Current assets		
Cash and cash equivalents	$ 463.6	$ 473.8
Receivables	799.6	719.9
Inventories	569.9	574.3
Deferred income taxes	169.4	132.7
Other current assets	184.0	125.4
Total current assets	$2,186.5	$2,026.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Market is determined on the basis of estimated realizable values.

4. Inventories

Inventories consist of (in millions):

	2005	2004
Finished goods	$189.6	$218.7
Work in process	149.3	135.4
Raw materials, parts, and supplies	231.0	220.2
Inventories	$569.9	$574.3

We report inventories net of the allowance for excess and obsolete inventory of $45.9 million at September 30, 2005 and $46.2 million at September 30, 2004.

2.67

TEXAS INSTRUMENTS INCORPORATED (DEC)

(Millions of dollars)	2005	2004
Current assets		
Cash and cash equivalents	$1,219	$ 2,668
Short-term investments	4,116	3,690
Accounts receivable, net of allowances	1,812	1,696
Inventories	1,273	1,256
Deferred income taxes	619	554
Prepaid expenses and other current assets	146	272
Total current assets	$9,185	$10,136

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies and Practices

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis. Prior to January 1, 2006, standard costs were based on the optimal utilization of installed factory capacity. With the adoption of SFAS No. 151, "*Inventory Costs, an amendment of ARB No. 43, Chapter 4*," effective January 1, 2006, standard costs will be based on the normal utilization of installed factory capacity, which is not materially different from the optimal rates previously used (see *Change in Accounting Standards* below). Costs associated with underutilization of capacity are expensed as incurred.

We conduct quarterly inventory reviews for salability and obsolescence. A specific allowance is provided for inventory considered unlikely to be sold. Remaining inventory has a salability and obsolescence allowance based upon the historical disposal percentage. Inventory is written off in the period in which disposal occurs.

Changes in Accounting Standards (In Part)

In December 2004, the FASB issued SFAS No. 151, "*Inventory Costs, an amendment of ARB No. 43, Chapter 4*," which will become effective for us beginning January 1, 2006. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted material should be expensed as incurred and not included in inventory. In addition, this standard requires that the allocation of fixed production overhead costs to inventory be based on the normal capacity of the production facilities. We have completed the evaluation of the impact of this standard on our financial position and results of operations, and have concluded that the impact of the change will not be material, as the normal capacity rate to be used is not materially different from the optimal capacity rate that we previously used.

3. Inventories

	2005	2004
Raw materials and purchased parts	$ 122	$ 117
Work in process	827	756
Finished goods	324	383
Total	$1,273	$1,256

Last-In First-Out

2.68

AK STEEL HOLDING CORPORATION (DEC)

(Dollars in millions)	2005	2004
Current assets		
Cash and cash equivalents	$ 519.6	$ 377.1
Accounts receivable, net	570.0	632.6
Inventories, net	808.4	682.2
Deferred tax asset	329.0	391.6
Other current assets	19.4	23.3
Total current assets	$2,246.4	$2,106.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Inventories

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

	2005	2004
Inventories on LIFO:		
Finished and semifinished	$ 776.3	$ 738.7
Raw materials and supplies	344.4	229.4
Adjustment to state inventories at LIFO value	(351.7)	(291.6)
Total	769.0	676.5
Other inventories	39.4	5.7
Total inventories	$ 808.4	$ 682.2

During 2005, 2004 and 2003, liquidation of LIFO layers generated income of $9.0, 25.1 and $11.1, respectively.

2.69

THE SHERWIN-WILLIAMS COMPANY (DEC)

	2005	2004	2003
Current assets			
Cash and cash equivalents	$ 36,041	$ 45,932	$ 302,813
Accounts receivable, less allowance	809,277	724,385	544,070
Inventories:			
Finished goods	686,913	651,095	552,657
Work in process and raw materials	121,631	121,757	85,580
	808,544	772,852	638,237
Deferred income taxes	107,739	88,985	86,616
Other current assets	132,784	149,774	143,408
Total current assets	$1,894,385	$1,781,928	$1,715,144

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousand of dollars)

Note 4. Inventories

Inventories were stated at the lower of cost or market with cost determined principally on the last-in, first-out (LIFO) method. The following presents the effect on inventories, net income and net income per common share had the Company used the first-in, first-out (FIFO) inventory valuation method adjusted for income taxes at the statutory rate and assuming no other adjustments. This information is presented to enable the reader to make comparisons with companies using the FIFO method of inventory valuation.

	2005	2004	2003
Percentage of total inventories on LIFO	89%	81%	88%
Excess of FIFO over LIFO	$187,425	$125,212	$96,591
(Decrease) increase in net income due to LIFO	(40,855)	(18,580)	2,213
(Decrease) increase in net income per common share due to LIFO	(.29)	(.13)	.02

LIFO inventories consist of the following:

	2005	2004
Finished products	$39,019	$41,448
Jobs in process	3,442	5,101
Materials and supplies	4,572	5,247
Total	$47,033	$51,796

During fiscal years 2005 and 2004, inventory quantities declined resulting in liquidations of LIFO inventory layers carried at lower costs prevailing in prior years compared with the cost of current year purchases. The effect of the liquidation decreased cost of sales by $656 and increased net income from continuing operations by $399, or $0.01 per share, in 2005. During 2004, the effect of the liquidation decreased cost of sales by $1,578 and decreased the net loss from continuing operations by $946, or $0.03 per share.

The Company subcontracts, stores, and later distributes finished goods to fulfill certain customer orders. Such subcontracted finished goods inventories are recorded at cost on a FIFO basis and amounts related to such subcontracted finished goods inventories are excluded from the Company's LIFO calculation. At January 1, 2006 and January 2, 2005, the amounts excluded for subcontracted finished goods inventories were $22,332 and $23,020, respectively.

In 2005, the Company changed its estimate of subcontracted finished goods inventories excluded from its LIFO calculation. The effect of this change was to increase cost of sales by approximately $900 and to decrease net income from continuing operations by approximately $547, or $0.02 per share.

2.70

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 13,609	$ 44,088
Accounts and notes receivable, net	123,006	128,396
Inventories	47,033	51,796
Deferred income taxes	15,946	16,577
Prepaid expense	14,309	11,383
Total current assets	$213,903	$252,240

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Inventories

Inventories are valued at the lower of cost or market. A significant portion of inventory costs is determined by the last-in, first-out (LIFO) method. Finished products include custom-printed forms stored for future shipment and invoicing to customers.

Note 7. Inventories

Substantially all inventories are valued at the lower of cost or market determined by the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method had been used, these inventories would have been $33,870 higher at January 1, 2006 and $33,468 higher at January 2, 2005.

Average Cost

2.71

MICRON TECHNOLOGY, INC. (AUG)

(Dollars in millions)	2005	2004
Cash and equivalents	$ 524.5	$ 486.1
Short-term investments	765.9	744.9
Receivables	794.4	773.7
Inventories	771.5	578.1
Prepaid expenses	37.8	37.4
Deferred income taxes	31.5	18.5
Total current assets	$2,925.6	$2,638.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts in millions)

Significant Accounting Policies (In Part)

Inventories

Inventories are stated at the lower of average cost or market value. Cost includes labor, material and overhead costs, including product and process technology costs. Determining market value of inventories involves numerous judgments, including projecting average selling prices and sales volumes for future periods and costs to complete products in work in process inventories. As a result of these analyses, when market values are below the Company's costs, the Company records a charge to cost of goods sold in advance of when the inventory is actually sold.

Supplemental Balance Sheet Information (In Part)

Inventories	2005	2004
Finished goods	$271.1	$151.0
Work in process	395.1	337.9
Raw materials and supplies	129.0	115.6
Allowance for obsolescence	(23.7)	(26.4)
	$771.5	$578.1

The Company recognized write-downs aggregating $307.0 million in 2003 to record work in process and finished goods inventories at their estimated market values.

Production Cost

2.72

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 12,772	$ 24,306
Net receivables	626,711	528,848
Net inventories	125,190	134,676
Deferred income tax asset	30,754	53,105
Other current assets	37,987	32,165
Total current assets	$833,414	$773,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Inventoried costs relating to contracts in progress are stated at actual production costs, including factory overhead, initial tooling, and other related costs incurred to date, reduced by amounts associated with recognized sales. Raw materials, work in process, and finished goods are generally determined using the standard costing method.

Inventories consist of the following:

	2005	2004
Raw materials	$ 40,384	$ 42,689
Work in process	29,184	21,605
Finished goods	31,883	46,988
Contracts in progress	23,739	23,394
Total inventories	$125,190	$134,676

Progress payments received from customers relating to the uncompleted portions of contracts are offset first against unbilled receivable balances, then against applicable inventories. Any remaining progress payment balances are classified as contract advances. Inventories are shown net of reductions of $11,657 as of March 31, 2005 and $4,975 as of March 31, 2004 for customer progress payments received on uncompleted portions of contracts.

PREPAID EXPENSES

2.73 Table 2-11 summarizes the number of survey companies disclosing, either on the balance sheet or in the notes to financial statements, an amount for prepaid expenses. Rarely is the nature of prepaid expenses disclosed. Examples of items identified as prepaid expenses follow.

2.74

TABLE 2-11: PREPAID EXPENSES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Prepaid expenses	100	97	104	98
Prepaid expenses and other current assets	223	217	195	199
Prepaid expenses and deferred taxes	11	14	7	6
Prepaid expenses and other receivables	2	3	3	4
Prepaid expenses and advances	10	7	7	3
Employee benefits	5	6	7	9
Advertising costs	18	17	16	12
Other captions indicating prepaid expenses	9	9	19	15

2.75

DELUXE CORPORATION (DEC)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 6,867	$ 15,492
Restricted cash	—	517
Trade accounts receivable—net of allowances for uncollectible accounts	105,238	110,529
Inventories and supplies	41,028	38,890
Deferred income taxes	17,978	13,531
Current assets of discontinued operations	8	22,641
Other current assets	42,819	38,786
Total current assets	$213,938	$240,386

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Supplementary Balance Sheet and Cash Flow Information

Other Current Assets

Other current assets were comprised of the following at December 31:

(In thousands)	2005	2004
Prepayment to voluntary employee beneficiary association trust (see Note 11)	$19,394	$16,230
Cash held for customers	12,746	9,759
Other	10,679	12,797
Other current assets	$42,819	$38,786

Note 11 (In Part): Employee Benefit Plans

Voluntary Employee Beneficiary Association Trust

We have formed a voluntary employee beneficiary association (VEBA) trust to fund employee and retiree medical and severance costs. Contributions to the VEBA trust are tax deductible, subject to limitations contained in the Internal Revenue Code. VEBA assets primarily consist of fixed income investments. We made contributions to the VEBA trust of $42.0 million in 2005, $40.5 million in 2004 and $32.0 million in 2003. The excess of assets in our VEBA trust over the amount of incurred but not reported claims was $19.4 million as of December 31, 2005 and $16.2 million as of December 31, 2004. This amount is reflected in other current assets in our consolidated balance sheets.

2.76

XILINX, INC. (MAR)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 449,388	$ 337,343
Short-term investments	412,170	506,852
Accounts receivable, net of allowances for doubtful accounts and customer returns of $3,869 and $3,989 in 2005 and 2004, respectively	213,459	248,956
Inventories	185,722	102,454
Deferred tax assets	125,342	90,386
Prepaid expenses and other current assets	80,283	60,796
Total current assets	$1,466,364	$1,346,787

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Balance Sheet Information

The following table discloses those current assets and liabilities that individually exceed 5% of the respective consolidated balance sheet amounts at each fiscal year. Individual balances that are less than 5% of the respective consolidated balance sheet amounts are aggregated and disclosed as "other."

(In thousands)	2005	2004
Prepaid expenses and other current assets		
Advances for wafer purchases	$41,697	$ —
Advances for mask purchases	490	18,826
Deferred compensation plan	13,946	9,779
Prepaid expenses	8,621	13,576
Other	15,529	18,615
	$80,283	$60,796

OTHER CURRENT ASSETS

2.77 Table 2-12 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 captions follow.

2.78

TABLE 2-12: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Nature of Asset				
Deferred income taxes	424	422	387	399
Property held for sale	95	93	67	62
Derivatives	49	41	34	23
Advances or deposits	22	10	10	15
Unbilled costs	18	15	13	10
Other—identified	33	32	50	49

Deferred Taxes

2.79

EMC CORPORATION (DEC)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$2,322,370	$1,476,803
Short-term investments	1,615,495	1,236,726
Accounts and notes receivable, less allowance for doubtful accounts of $38,126 and $39,901	1,405,564	1,162,387
Inventories	724,751	514,065
Deferred income taxes	326,318	289,810
Other current assets	179,478	151,135
Total current assets	$6,573,976	$4,830,926

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax credits are generally recognized as reductions of income tax provisions in the year in which the credits arise. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We do not provide for a U.S. income tax liability on undistributed earnings of our foreign subsidiaries. The earnings of non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, are currently indefinitely reinvested in non-U.S. operations or will be remitted substantially free of additional tax.

K (In Part): Income Taxes

The components of the current and noncurrent deferred tax assets are as follows (table in thousands):

	2005		2004	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
Current				
Accounts & notes receivable	$ 56,060	$ —	$ 61,721	$ —
Inventory	47,999	—	40,816	—
Accrued expenses	129,409	—	107,442	—
Deferred revenue	92,850	—	75,226	—
Other	—	—	4,605	—
Total current	326,318	—	289,810	—
Noncurrent				
Property, plant and equipment, net	—	(37,951)	—	(61,447)
Intangible and other assets, net	—	(212,995)	—	(188,100)
Equity	39,241	—	27,953	—
Deferred revenue	45,733	—	23,419	—
Other noncurrent liabilities	—	(54,765)	—	(45,835)
Credit carryforwards	18,507	—	65,673	—
Net operating loss carryforwards	90,300	—	105,235	—
Other comprehensive loss	555	—	—	(6,522)
Total noncurrent	194,336	(305,711)	222,280	(301,904)
Gross deferred tax assets and liabilities	520,654	(305,711)	512,090	(301,904)
Valuation allowance	(63,817)	—	(61,976)	—
Total deferred tax assets and liabilities	$456,837	$(305,711)	$450,114	$(301,904)

We have federal and foreign net operating loss carryforwards of $126.7 million and $107.9 million, respectively. Portions of these carryforwards are subject to annual limitations, including Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), for U.S. tax purposes and similar provisions under other countries' tax laws. Certain net operating losses will begin to expire in 2006, while others have an unlimited carryforward period.

The valuation allowance increased from $62.0 million at December 31, 2005 to $63.8 million at December 31, 2005. The net increase was principally attributable to an increase in capital loss carryforwards and a decrease in credit carryforwards of domestic subsidiaries and net operating losses and other deferred tax assets of foreign subsidiaries. The valuation allowance at December 31, 2005 relates to foreign subsidiaries' deferred tax assets, capital loss carryforwards and domestic tax credit carryforwards.

Deferred income taxes have not been provided on basis differences related to investments in foreign subsidiaries. These basis differences were approximately $1.1 billion and $3.2 billion at December 31, 2005 and 2004, respectively, and consisted of undistributed earnings permanently invested in these entities. The change in the basis difference between 2004 and 2005 was attributable to the approximate $3.0 billion in foreign earnings repatriated under the AJCA, partially offset by $781.4 million of income earned in the current year. The unrecognized deferred tax liability associated with these unremitted earnings is approximately $280.0 million and $780.0 million as of December 31, 2005 and 2004, respectively. Income before income taxes from foreign operations for 2005, 2004 and 2003 was $781.4 million, $632.0 million and $343.9 million, respectively.

2.80

WELLPOINT, INC. (DEC)

(In millions)	2005	2004
Current assets		
Investments available-for-sale, at fair value		
Fixed maturity securities (amortized cost of $15,444.5 and $12,286.7)	$15,332.2	$12,413.7
Equity securities (cost of $1,388.4 and $1,089.3)	1,448.2	1,173.2
Cash and cash equivalents	2,740.2	1,457.2
Accrued investment income	156.8	144.6
Premium and self-funded receivables	2,295.2	1,574.6
Other receivables	831.4	731.8
Securities lending collateral	1,389.9	658.5
Deferred tax assets, net	728.2	434.0
Other current assets	1,022.7	769.9
Total current assets	$25,944.8	$19,357.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Federal Income Taxes

The Company files a consolidated income tax return. Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and laws. The deferred tax benefits of the deferred tax assets are recognized to the extent realization of such benefits is more likely than not. Deferred income tax expense or benefit generally represents the net change in deferred income tax assets and liabilities during the year. Current income tax expense represents the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

14 (In Part): Income Taxes

The components of deferred income taxes at December 31 are as follows:

	2005	2004
Deferred tax assets		
Pension and postretirement benefits	$ 210.7	$ 148.1
Accrued expenses	401.0	433.3
Alternative minimum tax and other credits	203.7	2.0
Insurance reserves	188.8	149.6
Net operating loss carryforwards	71.0	38.1
Bad debt reserves	65.6	58.9
Depreciation and amortization	37.9	110.4
State income tax	116.2	136.1
Deferred compensation	177.8	232.3
Other	55.1	36.9
Total deferred tax assets	1,527.8	1,345.7
Valuation allowance	(22.3)	(22.3)
Total deferred tax assets, net of valuation allowance	1,505.5	1,323.4
Deferred tax liabilities		
Unrealized (losses) gains on securities	(16.6)	106.2
Acquisition related liabilities:		
Goodwill and conversion issues	43.3	15.3
Trademarks and software development	2,683.5	1,817.0
Subscriber base, provider and hospital networks	1,067.3	1,062.1
Other acquisition related liabilities	8.9	30.0
Investment basis difference	147.3	192.4
Retirement liabilities	81.1	80.3
Other	68.8	182.5
Total deferred tax liabilities	4,083.6	3,485.8
Net deferred tax liability	$(2,578.1)	$(2,162.4)
Deferred tax asset—current	$ 728.2	$ 434.0
Deferred tax liability—noncurrent	(3,306.3)	(2,596.4)
Net deferred tax liability	$(2,578.1)	$(2,162.4)

The net decrease in the valuation allowance for 2005 and 2004 was $0.0 and $33.8, respectively. The valuation allowance is attributable to the uncertainty of alternative minimum tax ("AMT") credits and net operating loss carryforwards. As deferred tax assets related to these types of deductions are recognized in the tax return, the valuation allowance is no longer required and is reduced. During 2004, the valuation allowance change was due to utilization of AMT credits and net operating loss carryforwards. Also the 2004 valuation allowance was increased by $4.7 as a result of the WHN merger.

Due to uncertainties, including industry issues, regarding both the timing and amount of deductions, the benefit of the 2004 valuation allowance release was offset by an increase in additional income tax liabilities during 2004. The industry issues include the valuation and timing of tax deductions for intangible assets in existence as of the conversion of Blue Cross Blue Shield organizations to taxable status, and the Special Tax Deduction for Blue Cross Blue Shield entities under Internal Revenue Code Section 833(b).

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As a result of legislation enacted in Indiana on March 16, 2004, the Company recorded deferred tax assets and liabilities, with a corresponding net tax benefit in the income statement of $44.8, or $0.15 per basic share and $0.14 per diluted share, for the year ended December 31, 2004. The legislation eliminated the creation of tax credits resulting from the payment of future assessments to the Indiana Comprehensive Health Insurance Association ("ICHIA"), Indiana's high-risk health insurance pool. Under the new legislation, ICHIA tax credits are limited to any unused ICHIA assessment paid prior to December 31, 2004. A valuation allowance of $5.6 was established for the portion of the deferred tax asset, which the Company believes will likely not be utilized. There is no carryforward limitation on the tax credits and the net operating loss carryforwards do not begin to expire until 2018.

In certain states, the Company pays premium taxes in lieu of state income taxes. Premium taxes are reported with general and administrative expense.

At December 31, 2005, the Company had unused federal tax net operating loss carryforwards of approximately $202.8 to offset future taxable income. The loss carryforwards expire in the years 2006 through 2024. During 2005, 2004 and 2003 federal income taxes paid totaled $994.0, $646.3 and $303.3, respectively.

Property Held for Sale

2.81

SWIFT TRANSPORTATION CO., INC. (DEC)

(In thousands)	2005	2004
Current assets		
Cash	$ 13,098	$ 28,245
Accounts receivable, net	329,336	331,093
Equipment sales receivables	6,127	4,463
Inventories and supplies	12,948	12,989
Prepaid taxes, licenses and insurance	40,495	24,179
Assets held for sale	29,791	51,757
Deferred income taxes	22,319	12,839
Total current assets	$454,114	$465,565

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) Assets Held For Sale

As of December 31, 2005, assets held for sale, which are stated at the lower of depreciated cost or fair value less costs to sell, consist of two properties and certain noncore assets, principally specialized trailers. The Company expects to dispose of these assets within the next twelve months and does not expect any material loss on these dispositions. During 2005, the Company identified certain trailers that will no longer be utilized by the Company. The majority of these trailers are specialized equipment and the Company recorded an expense of $6.4 million to reduce the carrying value of these assets to their fair value less costs to sell. This charge is included in depreciation, amortization and impairment expense. Also in 2005, the Company recorded a $1.3 million charge to reduce the carrying value of an underutilized Mexican facility to its fair value less cost to sell. The charge is included in other expense on the Consolidated Statement of Earnings.

As of December 31, 2004, assets held for sale included four properties and the autohaul revenue producing equipment and related Selkirk facility. We recorded a $4.0 million impairment to the autohaul assets in 2004. This impairment is recorded within depreciation, amortization and impairment expense.

The Company disposed of two properties in 2003, which had been identified as of December 31, 2002 as assets held for sale and stated at the lower of depreciated cost or fair value less costs to sell. The Company received $8.7 million, net of expenses, and recognized a gain of $453,000, which is included in Other Income on the Consolidated Statement of Earnings.

Derivatives

2.82

NOBLE ENERGY, INC. (DEC)

(In thousands)	2005	2004
Current assets		
Cash and cash equivalents	$ 110,321	$179,794
Accounts receivable—trade, net	566,206	406,608
Derivative instruments	29,258	28,733
Materials and supplies inventories	33,802	12,109
Deferred taxes	237,045	13,039
Prepaid expenses and other	56,568	28,278
Probable insurance claims	142,311	65,000
Total current assets	$1,175,511	$733,561

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in tables, unless otherwise indicated, are in thousands, except per share amounts)

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

Fair Value of Financial Instruments (In Part)

The following methods and assumptions were used to estimate the fair values for each class of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between two willing parties.

Derivative Instruments

Derivative instruments are carried at fair market value on the balance sheet as determined by a professional valuation service firm. See "Note 12—Derivative Instruments and Hedging Activities."

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments in connection with anticipated crude oil and natural gas sales to minimize the impact of commodity price fluctuations. Such instruments include variable to fixed price swaps and costless collars. Although these derivative instruments expose the Company to credit risk, the Company monitors the creditworthiness of its counterparties and believes that losses from nonperformance are unlikely to occur. However, the Company is not able to predict sudden changes in its counterparties' creditworthiness.

The Company accounts for its derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended," ("SFAS No. 133"). The statement established accounting and reporting standards requiring every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met wherein gains and losses are reflected in shareholders' equity as accumulated other comprehensive income (loss) ("AOCI") until the hedged item is recognized. Hedge accounting allows a derivative's gains and losses to offset related results on the hedged item on the statements of operations, and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Only derivative instruments that are expected to be highly effective in offsetting anticipated gains or losses on the hedged cash flows and that are subsequently documented to have been highly effective can qualify for hedge accounting. Any ineffectiveness in hedging instruments whereby gains or losses do not exactly offset anticipated gains or losses of hedged cash flows is recorded in earnings in the period in which the gain or loss occurs. Gains and losses from derivative instruments qualifying for hedge accounting treatment are deferred in AOCI and reclassified to oil and gas sales and royalties when the forecasted production occurs.

Note 12 (In Part): Derivative Instruments and Hedging Activities

Cash Flow Hedges

The Company uses various derivative instruments in connection with anticipated crude oil and natural gas sales to minimize the impact of product price fluctuations. Such instruments include variable to fixed price swaps and costless collars. Although these derivative instruments expose the Company to credit risk, the Company takes reasonable steps to protect itself from nonperformance by its counterparties and periodically assesses necessary provisions for bad debt allowance. However, the Company is not able to predict sudden changes in its counterparties' creditworthiness.

The Company accounts for its derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended", and has elected to designate its derivative instruments as cash flow hedges. Both at the inception of a hedge and on an ongoing basis, a cash flow hedge must be expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. Derivative instruments designated as cash flow hedges are reflected at fair value as either assets or liabilities on the Company's consolidated balance sheets. Changes in fair value, to the extent the hedge is effective, are reported in AOCI until the forecasted transaction occurs. Gains and losses from such derivative instruments related to the Company's crude oil and natural gas production and which qualify for hedge accounting treatment are recorded in oil and gas sales and royalties on the Company's consolidated statements of operations upon sale of the associated products. Hedge effectiveness is assessed quarterly based on total changes in the derivative's fair value. Any ineffective portion of the derivative instrument's change in fair value is recognized immediately in other expense (income), net.

It if becomes probable that the hedging instrument is no longer highly effective, the hedging instrument loses hedge accounting treatment. All current mark-to-market gains and losses are recorded in earnings and all accumulated gains or losses recorded in AOCI related to the hedging instrument are also reclassified to earnings. As a result of the impacts of Hurricanes Katrina and Rita on the timing of the Company's forecasted production during the fourth quarter of 2005, derivative instruments hedging approximately 6,000 barrels per day of crude oil and 40,000 MMBtu per day of natural gas, no longer qualified for hedge accounting. Accordingly, beginning October 1, 2005 the changes in fair value of these derivative contracts were recognized in the Company's results of operations, causing a mark-to-market gain of $20.0 million ($13.0 million, net of tax). In addition, the delay in the timing of the Company's production resulted in a loss of $51.8 million in fourth quarter 2005 ($33.7 million, net of tax) related to amounts previously recorded in AOCI. Both the gain and the loss are included in other expense (income) on the statement of operations. No gains or losses were reclassified from AOCI into earnings as a result of the discontinuance of hedge accounting treatment during 2004 or 2003. During 2004 and 2003, the Company's ineffectiveness related to its cash flow hedges was *de minimis.*

During 2005, 2004 and 2003, the Company entered into various NYMEX and Brent costless collars related to its crude oil and natural gas production. The tables below summarize the various transactions:

	2005	2004	2003
Natural gas collars			
NYMEX			
Hedge MMBtupd	79,932	120,284	190,038
Floor price range	\$5.00–\$5.75	\$3.75–\$5.00	\$3.25–\$3.80
Ceiling price range	\$7.20–\$9.50	\$5.16–\$9.65	\$4.00–\$5.25
Percent of daily worldwide production	16%	33%	56%
Crude oil collars			
NYMEX			
Hedge Bopd	15,519	15,005	15,793
Floor price range	\$29.00–\$32.00	\$24.00–\$28.00	\$23.00–\$27.00
Ceiling price range	\$37.25–\$46.15	\$30.00–\$38.65	\$27.20–\$35.05
Percent of daily worldwide production	26%	33%	44%
Brent			
Hedge Bopd	5,000	1,260	—
Floor price range	\$32.50–\$37.50	\$37.50–\$37.50	—
Ceiling price range	\$49.50–\$56.50	\$54.00–\$54.00	—
Percent of daily worldwide production	8%	3%	—

The contracts entitle the Company (floating price payor) to receive settlement from the counterparty (fixed price payor) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable for each calculation period is less than the fixed price. The Company would pay the counterparty if the settlement price for the scheduled trading day applicable for each calculation period is more than the fixed price. The amount payable by the Company, if the floating price is above the fixed price, is the product of the notional quantity per calculation period and the excess, if any, of the floating price over the fixed price in respect of each calculation period. The amount payable by the counterparty, if the floating price is below the fixed price, is the product of the notional quantity per calculation period and the excess, if any, of the fixed price over the floating price in respect of each calculation period.

Accumulated Other Comprehensive Income (Loss)

As of December 31, 2005 and 2004, the balance in AOCI included net deferred losses of \$763.8 million and \$6.9 million, respectively, related to the fair value of crude oil and natural gas derivative instruments accounted for as cash flow hedges. The net deferred losses are net of deferred income tax benefit of \$411.3 million and \$3.7 million, respectively.

If commodity prices were to stay the same as they were at December 31, 2005, approximately \$203.7 million of deferred losses, net of tax, related to the fair values of crude oil and natural gas derivative instruments included in AOCI at December 31, 2005 would be reclassified to earnings during the next twelve months as the forecasted transactions occur, and would be recorded as a reduction in oil and gas sales and royalties. Any actual increase or decrease in revenues will depend upon market conditions over the period during which the forecasted transactions occur. All current crude oil and natural gas derivative instruments, except those described in the following paragraph, are designated as cash flow hedges.

Other Derivative Instruments

In addition to the derivative instruments pertaining to the Company's production as described above, NEMI, from time to time, employs derivative instruments in connection with its purchases and sales of production in order to establish a fixed margin and mitigate the risk of price volatility. Most of the purchases are on an index basis; however, purchasers in the markets in which NEMI sells often require fixed or NYMEX-related pricing. NEMI may use a derivative instrument to convert the fixed or NYMEX sale to an index basis thereby determining the margin and minimizing the risk of price volatility.

Derivative instruments used in connection with purchases and sales of third-party production are reflected at fair value as either assets or liabilities on the Company's consolidated balance sheets. NEMI records gains and losses on derivative instruments using mark-to-market accounting. Under this accounting method, the changes in the market value of outstanding derivative instruments are recognized as gains or losses in the period of change. Gains and losses related to changes in fair value are included in gathering, marketing and processing revenues on the Company's statements of operations. The Company recorded a net loss of \$1.5 million during 2005 related to derivative instruments. Net gains and losses for 2004 and 2003 were *de minimis*.

Receivables/Payables Related to Crude Oil and Natural Gas Derivative Instruments

At December 31, 2005, the Company's consolidated balance sheet included the following assets and liabilities related to derivative instruments:

(In thousands)	2005	2004
Derivative instruments (current asset)	$ 29,258	$ 28,733
Derivative instruments (long-term asset)	17,259	20,427
Derivative instruments (current liability)	(445,939)	(50,304)
Derivative instruments (long-term liability)	(757,509)	(9,678)

Advances/Deposits

2.83

WARNER MUSIC GROUP CORP. (SEP)

(In millions)	2005	2004
Current assets		
Cash and equivalents	$288	$555
Accounts receivable, less allowances of $218 and $222 million	637	571
Inventories	52	65
Royalty advances expected to be recouped within one year	190	223
Deferred tax assets	36	38
Other current assets	39	86

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Royalty Advances and Royalty Costs

The Company regularly commits to and pays advance royalties to its artists and songwriters in respect of future sales. The Company accounts for these advance royalty payments under the related guidance in FASB No. 50, "Financial Reporting in the Record and Music Industry" ("FAS 50"). Under FAS 50, certain advance royalty payments that are believed to be recoverable from future royalties to be earned by the artist or songwriter are capitalized as assets. The decision to capitalize an advance to an artist or songwriter as an asset requires significant judgment as to the recoverability of these advances. The recoverability of these assets is assessed upon initial commitment of the advance, based upon the Company's forecast of anticipated revenues from the sale of future and existing music and publishing-related products. In determining whether these amounts are recoverable, the Company evaluates the current and past popularity of the artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, the portion of such advances that are believed not to be recoverable is expensed. All advances are assessed for recoverability continuously and at minimum on a quarterly basis.

Royalties earned by artists, songwriters, co-publishers, other copyright holders and trade unions are recognized as an expense in the period in which the sale of the product takes place, less an adjustment for future estimated returns.

21 (In Part): Commitments and Contingencies

Guaranteed Minimum Talent Advances

The Company routinely enters into long-term commitments with artists, songwriters and co-publishers for the future delivery of music product. Aggregate firm commitments to such talent approximated $369 million and $345 million as of September 30, 2005 and 2004, respectively. Such commitments are payable principally over a ten-year period, generally upon delivery of albums from the artists or future musical compositions by songwriters and co-publishers.

Unbilled Costs

2.84

RAYTHEON COMPANY (DEC)

(In millions)	2005	2004
Current assets		
Cash and cash equivalents	$1,202	$ 556
Accounts receivable, less allowance for doubtful accounts of $24 in 2005 and $35 in 2004	425	478
Contracts in process	3,469	3,514
Inventories	1,722	1,745
Deferred federal and foreign income taxes	435	469
Prepaid expenses and other current assets	314	343
Assets from discontinued operations	—	19
Total current assets	$7,567	$7,124

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Revenue Recognition (In Part)

Sales under long-term contracts generally are recorded under the percentage of completion method. Incurred costs and estimated gross margins are recorded as sales when work is performed based on the percentage that incurred costs bear to the Company's estimates of total costs and contract value. Cost estimates include direct and indirect costs such as labor, materials, warranty, and overhead. Some contracts contain incentive provisions based upon performance in relation to established targets, which are included at estimated realizable value. Contract change orders and claims are included when they can be reliably estimated and realization is considered probable. Since many contracts extend over a long period of time, revisions in cost and contract value estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the current contract estimate indicates a loss, provision is made for the total anticipated loss in the current period. Contracts with multiple elements, primarily license fees, are evaluated and separated, as appropriate, into elements on which revenue is recognized in the proper periods.

Contracts in Process

Contracts in process are stated at cost plus estimated profit, but not in excess of realizable value.

Deferred Contract Costs

Certain costs incurred in the performance of the Company's government contracts are required to be recorded under generally accepted accounting principles but are not currently allocable to contracts. Such costs include a portion of the Company's workers' compensation, environmental expenses, and asset retirement obligations. These costs become allocable to contracts when they are paid, at which time they are charged to contracts and recovered from the government. The Company regularly assesses the probability of recovery of these costs. This assessment requires the Company to make assumptions about the extent of cost recovery under the Company's contracts and the amount of future contract activity. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of the Company's remaining contracts could be adversely affected.

Note D Contracts In Process

Contracts in process consisted of the following at December 31, 2005:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	$ 430	$ 163	$ 593
Unbilled	888	4,514	5,402
Less progress payments	—	(3,315)	(3,315)
	1,318	1,362	2,680
Other customers			
Billed	24	136	160
Unbilled	7	1,109	1,116
Less progress payments	—	(487)	(487)
	31	758	789
Total	$1,349	$ 2,120	$ 3,469

Contracts in process consisted of the following at December 31, 2004:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	$ 393	$ 295	$ 688
Unbilled	845	4,328	5,173
Less progress payments	—	(3,326)	(3,326)
	1,238	1,297	2,535
Other customers			
Billed	19	226	245
Unbilled	11	1,210	1,221
Less progress payments	—	(487)	(487)
	30	949	979
Total	$1,268	$ 2,246	$ 3,514

The U.S. government has title to the assets related to unbilled amounts on contracts that provide for progress payments. Unbilled amounts are recorded under the percentage of completion method and are recoverable from the customer upon shipment of the product, presentation of billings, or completion of the contract.

Included in contracts in process at December 31, 2005 and 2004 was $27 million and $66 million, respectively, related to claims on contracts, which were recorded at their estimated realizable value. The Company believes that it has a legal basis for pursuing recovery of these claims and that collection is probable. The settlement of these amounts depends on individual circumstances and negotiations with the counterparty, therefore, the timing of the collection will vary and approximately $11 million of collections are expected to extend beyond one year.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 2005, retentions amounted to $36 million and are anticipated to be collected as follows: $26 million in 2006 and the balance thereafter.

PROPERTY, PLANT, AND EQUIPMENT

2.85 Property, Plant, and Equipment are the long-lived, physical assets of the firm acquired for use in the firm's normal business operations and not intended for resale by the firm. These assets are usually valued at historical cost. SFAS No. 34, *Capitalization of Interest Cost*, establishes standards of financial accounting and reporting for capitalizing interest cost as part of the historical cost of acquiring certain assets such as plant assets that a firm constructs for its own use. In 2005, 145 survey companies disclosed that interest costs were capitalized during the period.

2.86 SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, provides guidance on accounting for the costs of internal-use computer software other than software used in research and development activities. Under *SOP No. 98-1*, certain computer software costs should be capitalized and amortized over their estimated useful lives. Accounting for computer software costs is also addressed by SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Under *SFAS No. 86*, certain computer software production costs incurred subsequent to establishing technological feasibility should be capitalized and amortized on a product-by-product basis. Presentations of capitalized computer software costs by survey companies vary. Examples of capitalized software cost disclosures are included here and in the Other Noncurrent Asset section.

2.87 Paragraph 5 of *APB Opinion No. 12* states:

> Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:
> a. Depreciation expense for the period,
> b. Balance of major classes of depreciable assets, by nature or function, at the balance sheet date,
> c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date, and
> d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

2.88 APB Opinion No. 20, *Accounting Changes*, defines various types of accounting changes, including a change in depreciation, amortization or depletion method, and provides guidance on the manner of reporting each type. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, replaces *APB No. 20. SFAS No. 154* changes the requirements for the accounting for and reporting of a change in accounting principle. *SFAS No. 154* also requires that a change in depreciation, amortization, or depletion method be accounted for prospectively as a change in accounting estimate effected by a change in accounting principle. A change in accounting estimate is accounted for either in the period of change if the change affects that period only, or the period of change and future periods if the change affects both.

2.89 Tables 2-13 and 2-14 show the assets classified as Property, Plant, and Equipment by the survey companies. Table 2-15 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

2.90 Examples of Property, Plant, and Equipment disclosures follow.

2.91

TABLE 2-13: LAND CAPTIONS

	2005	2004	2003	2002
Land	337	339	342	335
Land and improvements	128	132	132	124
Land and buildings	59	56	55	54
Land combined with other identified assets	10	9	7	12
No caption with term land	46	48	47	52
	580	**584**	**583**	**577**
Lines of business classification	20	16	17	23
Total Companies	**600**	**600**	**600**	**600**

2.92

TABLE 2-14: DEPRECIABLE ASSET CAPTIONS

	2005	2004	2003	2002
Buildings				
Buildings	184	189	195	191
Buildings and improvement	267	269	256	254
Building and land or equipment	85	84	73	72
Buildings combined with other identified assets	13	14	14	16
No caption with term buildings	34	32	49	54
	583	**588**	**587**	**587**
Line of business classification	17	12	13	13
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Other Depreciable Asset Captions				
Machinery and/or equipment	387	391	387	385
Machinery and/or equipment combined with other assets	129	128	113	129
Construction in progress	284	276	274	272
Leasehold improvements	133	135	131	131
Lease assets	59	60	66	56
Automobiles, marine equipment, etc.	97	89	84	92
Furniture and fixtures	100	106	107	100
Computer equipment	63	59	38	43
Software	67	56	58	49
Assets leased to others	13	15	21	19

2.93

TABLE 2-15: ACCUMULATED DEPRECIATION

	2005	2004	2003	2002
Accumulated depreciation	345	337	336	326
Accumulated depreciation and amortization	188	192	193	200
Accumulated depreciation, amortization and depletion	18	19	16	20
Accumulated depreciation and depletion	6	6	7	7
Allowance for depreciation	17	17	20	23
Allowance for depreciation and amortization	5	9	6	6
Other captions	21	20	22	18
Total Companies	**600**	**600**	**600**	**600**

2.94

AT&T INC. (DEC)

(In millions)	2005	2004
Total current assets	$ 14,654	$ 9,962
Property, plant and equipment—net	58,727	50,046
Goodwill	14,055	1,625
Intangible assets—net	8,503	429
Investments in equity affiliates	2,031	1,798
Investments in and advances to cingular wireless	31,404	33,687
Other assets	16,258	12,718
Total assets	$145,632	$110,265

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

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

Conditional Asset Retirement Obligations

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," (FIN 47) an interpretation of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143) and is effective for fiscal years ended after December 15, 2005. FIN 47 clarifies that the term "conditional asset retirement obligation," as used in FAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 requires a company to recognize the liability for the fair value of the conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Any liability accrued is offset by an increase in the value of the asset. Adoption of FIN 47 did not have a material impact on our financial statements.

Cumulative Effect of Accounting Changes (In Part)

Depreciation Accounting

On January 1, 2003, we adopted FAS 143. FAS 143 sets forth how companies must account for the costs of removal of long-lived assets when those assets are no longer used in a company's business, but only if a company is legally required to remove such assets. FAS 143 requires that companies record the fair value of the costs of removal in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. To determine whether we have a legal obligation to remove our long-lived assets, we reviewed state and federal law and regulatory decisions applicable to our subsidiaries, primarily our wireline subsidiaries, which have long-lived assets. Based on this review, we concluded that we are not legally required to remove any of our long-lived assets, except in a few minor instances.

However, in November 2002, we were informed that the Securities and Exchange Commission (SEC) staff concluded that certain provisions of FAS 143 require that we exclude costs of removal from depreciation rates and accumulated depreciation balances in certain circumstances upon adoption, even where no legal removal obligations exist. In our case, this means that for plant accounts where our estimated costs of removal exceed the estimated salvage value, we are prohibited from accruing removal costs in those depreciation rates and accumulated depreciation balances in excess of the salvage value. For our other long-lived assets, where our estimated costs of removal are less than the estimated salvage value, we will continue to accrue the costs of removal in those depreciation rates and accumulated depreciation balances.

Therefore, in connection with the adoption of FAS 143 on January 1, 2003, we reversed all existing accrued costs of removal for those plant accounts where our estimated costs of removal exceeded the estimated salvage value. The noncash gain resulting from this reversal was $3,684, net of deferred taxes of $2,249, recorded as a cumulative effect of accounting change on the Consolidated Statements of Income as of January 1, 2003.

In addition, in 2003, TDC A/S (TDC), the Danish communications company in which we then held an investment accounted for on the equity method, recorded a loss upon adoption of FAS 143. Our share of that loss was $7, which included no tax effect. This noncash charge of $7 was also recorded as a cumulative effect of accounting change on the Consolidated Statements of Income as of January 1, 2003.

Beginning in 2003, for those plant accounts where our estimated costs of removal previously exceeded the estimated salvage value, we expense all costs of removal as we incur them (previously those costs had been recorded in our depreciation rates). As a result, our 2003 depreciation expense decreased and our operations and support expense increased as these assets were removed from service. The effect of this change was to increase consolidated pretax income and our wireline segment income for 2003 by $280 ($172 net of tax, or $0.05 per diluted share). However, over the life of the assets, total operating expenses recognized under this new accounting method will be approximately the same as under the previous method (assuming the cost of removal would be the same under both methods).

Property, Plant and Equipment

Property, plant and equipment is stated at cost, except for assets acquired using purchase accounting, which are recorded at fair value. The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, period-to-period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs

It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated Balance Sheets and are amortized over three years. Software costs that do not meet capitalization criteria are expensed immediately.

Note 5. Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	Lives (Years)	2005	2004
Land	—	$ 1,169	$ 643
Buildings	35–45	15,557	11,909
Central office equipment	3–10	57,254	55,703
Cable, wiring and conduit	10–50	55,858	52,860
Other equipment	5–15	12,111	9,749
Software	3	5,539	4,222
Under construction	—	1,750	1,091
		149,238	136,177
Accumulated depreciation and amortization		90,511	86,131
Property, plant and equipment—net		$ 58,727	$ 50,046

Our depreciation expense was $7,372 in 2005, $7,447 in 2004 and $7,667 in 2003.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $473 for 2005, $479 for 2004 and $420 for 2003. At December 31, 2005, the future minimum rental payments under noncancelable operating leases for the years 2006 through 2010 were $632, $514, $412, $312 and $239 with $517 due thereafter. Capital leases are not significant.

During 2005, we had impairments in our wireline segment of approximately $349 on assets for which we do not believe we will recover their value due to the acquisition of ATTC. The impairments primarily consisted of $237 due to the write-down of out-of-region assets to current market value and write-offs of $45 of collocation assets and $43 of software. The impairments are reflected as an operating expense in the "Selling, general and administrative" line on our Consolidated Statements of Income.

SpectraSite Agreement

In August 2000, we reached an agreement with SpectraSite, Inc. (SpectraSite) under which we granted SpectraSite the exclusive rights to lease space on a number of our communications towers. These operating leases were scheduled to close over a period ending in 2002 (subsequently extended to 2004). SpectraSite would sublease space on the towers to Cingular and also agreed to build or buy new towers for Cingular over the next five years. Cingular's sublease payments to SpectraSite reduce Cingular's net income and partially offset the rental income we receive from SpectraSite.

Under the terms of the original agreement, we received a combination of cash and stock as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments were recorded as deferred revenue and recognized in income as revenue over the life of the leases. In November 2001, we received $35 from SpectraSite in consideration for amending the agreement to reduce the maximum number of towers subject to its terms and to extend the schedule for tower closings until the first quarter of 2004. The balance of deferred revenue was $598 in 2005, $628 in 2004 and $605 in 2003.

In late 2002, SpectraSite and certain of its senior debt holders agreed to restructure its debt. To effect the restructuring, SpectraSite filed a "prearranged" plan of reorganization under Chapter 11 of the United States Bankruptcy Code. We agreed with SpectraSite, subject to completion of its Chapter 11 reorganization, to decrease the number of towers to be leased to SpectraSite and to extend the schedule for tower closing until the third quarter of 2004. In addition, we exchanged all of our shares in SpectraSite for warrants to purchase shares representing less than 1% of the restructured company with no significant financial impact on us; we disposed of this interest in 2005. SpectraSite emerged from bankruptcy in 2003.

2.95

COMCAST CORPORATION (DEC)

(Dollars in millions)	2005	2004
Total current assets	$ 2,594	$ 3,535
Investments	12,682	12,812
Property and equipment, net of accumulated depreciation of $12,629 and $9,416	18,769	18,711
Franchise rights	51,090	51,071
Goodwill	14,218	14,020
Other intangible assets, net of accumulated amortization of $4,776 and $3,452	3,160	3,851
Other noncurrent assets, net	633	694
Total assets	$103,146	$104,694

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Depreciation is generally recorded using the straight-line method over estimated useful lives. The significant components of property and equipment are as follows:

(Dollars in millions)	Useful Life	2005	2004
Transmission and distribution facilities	2–15 years	$27,222	$24,239
Buildings and building improvements	5–40 years	1,300	1,365
Land	—	155	152
Other	3–12 years	2,721	2,371
Property and equipment, at cost		31,398	28,127
Less: Accumulated depreciation		(12,629)	(9,416)
Property and equipment, net		$18,769	$18,711

We capitalize improvements that extend asset lives and expense other repairs and maintenance charges as incurred. The cost and related accumulated depreciation applicable to assets sold or retired are removed from the accounts and, unless they are presented separately, the gain or loss on disposition is recognized as a component of depreciation expense.

We capitalize the costs associated with the construction of cable transmission and distribution facilities and new service installations. Costs include all direct labor and materials, as well as various indirect costs.

Valuation of Long-Lived and Indefinite Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we periodically evaluate the recoverability and estimated lives of our long-lived assets, including property and equipment and intangible assets subject to amortization, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Our evaluations include analyses based on the cash flows generated by the underlying assets, profitability information, including estimated future operating results, trends or other determinants of fair value. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. Unless presented separately, the loss is included as a component of either depreciation expense or amortization expense, as appropriate.

2.96

THE DOW CHEMICAL COMPANY (DEC)

(In millions)	2005	2004
Total current assets	$17,404	$15,890
Investments		
Investment in nonconsolidated affiliates	2,285	2,698
Other investments	2,156	2,141
Noncurrent receivables	274	189
Total investments	4,715	5,028
Property		
Property	41,934	41,898
Less accumulated depreciation	28,397	28,070
Net property	13,537	13,828
Other assets		
Goodwill	3,140	3,152
Other intangible assets (net of accumulated amortization—2005: $552; 2004: $507)	443	535
Deferred income tax assets—noncurrent	3,658	4,369
Asbestos-related insurance receivables—noncurrent	818	1,028
Deferred charges and other assets	2,219	2,055
Total other assets	10,278	11,139
Total assets	$45,934	$45,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Property

Land, buildings and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of depreciable assets and is provided using the straight-line method. For most assets capitalized through 1996, the declining balance method was used. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

Impairment and Disposal of Long-Lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows are not expected to be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed of by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

Note E Property

PROPERTY AT DECEMBER 31

(In millions)	Estimated Useful Lives (Years)	2005	2004
Land	—	$ 518	$ 550
Land and waterway improvements	15–25	1,147	1,170
Buildings	5–55	3,339	3,462
Machinery and equipment	3–20	31,831	31,882
Utility and supply lines	5–20	2,000	1,974
Other property	3–30	1,757	1,853
Construction in progress	—	1,342	1,007
Total property		$41,934	$41,898

(In millions)	2005	2004	2003
Depreciation expense	$1,904	$ 1,904	$ 1,753
Manufacturing maintenance and repair costs	$1,289	$ 1,182	$ 1,083
Capitalized interest	$ 56	$ 48	$ 48

2.97

THE MCGRAW-HILL COMPANIES, INC. (DEC)

(In thousands)	2005	2004
Total current assets	$2,590,939	$2,426,122
Prepublication costs: (net of accumulated amortization: 2005—$1,021,972; 2004—$1,074,645) (Note 1)	454,631	428,205
Investments and other assets		
Prepaid pension expense	288,868	299,792
Other	182,649	220,611
Total investments and other assets	471,517	520,403
Property and equipment—at cost		
Land	13,614	13,510
Buildings and leasehold improvements	397,528	369,355
Equipment and furniture	888,369	812,927
Total property and equipment	1,299,511	1,195,792
Less—accumulated depreciation	772,761	682,726
Net property and equipment	526,750	513,066
Goodwill and other intangible assets		
Goodwill—net	1,654,628	1,505,340
Copyrights—net	210,387	228,502
Other intangible assets—net	486,956	219,643
Net goodwill and other intangible assets	2,351,971	1,953,485
Total assets	$6,395,808	$5,841,281

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Accounting for the Impairment of Long-Lived Assets

The Company accounts for Impairment of Long-Lived Assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a uniform accounting model for long-lived assets to be disposed of. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For long-lived assets held for sale, assets are written down to fair value, less cost to sell. Fair value is determined based on discounted cash flows, appraised values or management's estimates, depending upon the nature of the assets. There were no impairments of long-lived assets, as of December 31, 2005, 2004 and 2003, with the exception of the Landoll, Frank Schaffer and related juvenile retail publishing businesses (juvenile retail publishing business), which was adjusted to fair value less cost to sell as of December 31, 2003, as a result of the impending disposition.

Depreciation

The costs of property and equipment are depreciated using the straight-line method based upon the following estimated useful lives: buildings and leasehold improvements—15 to 40 years; equipment and furniture—two to 10 years.

INVESTMENTS

2.98 APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, stipulates that the equity method should be used to account for investments in corporate joint ventures and certain other companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *APB Opinion No. 18* considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. Financial Accounting Standards Board (FASB) Interpretation No. 35, *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock*, issued to clarify the criteria for applying the equity method of accounting to 50% or less owned companies, lists circumstances under which, despite 20% ownership, an investor may not be able to exercise significant influence.

2.99 In addition to investments accounted for by the equity method, many survey companies disclosed investments in equity and debt securities subject to the requirements of *SFAS No. 115.* This Statement is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115*, as amended by *SFAS No. 133*, state the disclosure requirements for such investments. SFAS No. 115 does not apply to investments accounted for by the equity method.

2.100 For investments subject to *SFAS No. 115* requirements, *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of investments unless it is not practicable to estimate that value. During 2005, 190 survey companies made 210 fair value disclosures. 115 of those disclosures used market or broker quotes of the investments to determine fair value. 22 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Nine of those disclosures estimated fair value using other valuation methods. 101 disclosures presented carrying amounts which approximated fair value of investments. In addition, there were 91 disclosures in which carrying value was compared to fair value in an exposition or a table. Two disclosures stated it was not practicable to estimate fair value.

2.101 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.102 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.103 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.104 The FASB's Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*, should be used to determine when certain investments are considered impaired, whether that impairment is other than temporary, and the measurement and recognition of an impairment loss. *EITF Issue No. 03-1* also provides guidance on accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

2.105 Table 2-16 lists the balance sheet carrying bases for investments presented as noncurrent assets.

2.106 Table 2-17 lists descriptions of investments presented as non-current investments. Examples of presentations and disclosures for such investments follow.

2.107

TABLE 2-16: INVESTMENTS—CARRYING BASES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Equity	302	293	290	304
Fair value	131	150	153	142
Cost	119	114	129	101
Lower of cost or market	2	4	3	4

2.108

TABLE 2-17: INVESTMENTS—DESCRIPTION

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Common stock	210	222	230	235
Marketable equity securities	106	122	114	121
Joint ventures	100	86	71	59
Debt	47	54	59	49
Preferred stock	13	14	14	11
Leases	12	14	15	10
Real estate	6	12	11	11
Other	13	32	21	30
No details	11	23	18	16

Equity Method

2.109

3COM CORPORATION (MAY)

Consolidated Balance Sheets

(In thousands)	2005	2004
Total current assets	$ 977,509	$1,519,677
Investment in Huawei-3Com joint venture	135,969	142,891
Property and equipment, net	69,535	72,452
Property and equipment held for sale	—	42,147
Goodwill	310,367	899
Intangible assets, net	65,882	5,009
Deposits and other assets	33,705	34,806
Deferred income taxes	—	2,937
Total assets	$1,592,967	$1,820,818

Consolidated Statements of Operations

(In thousands)	2005	2004	2003
Sales	$ 651,244	$ 698,884	$ 932,866
Cost of sales	416,916	455,813	511,140
Gross profit	234,328	243,071	421,726
Operating expenses:			
Sales and marketing	243,700	244,703	242,722
Research and development	94,584	95,195	113,057
General and administrative	59,833	74,245	94,535
Amortization and write-down of intangibles	8,989	7,026	10,287
Restructuring charges	23,922	159,727	184,880
In-process research and development	6,775	—	—
Loss on land and facilities, net	—	—	887
Total operating expenses	437,803	580,896	646,368
Operating (loss)	(203,475)	(337,825)	(224,642)
Gain (loss) on investments, net	1,580	(10,899)	(36,131)
Interest and other income, net	16,621	15,905	20,158
(Loss) from continuing operations before income taxes, equity interests and cumulative effect of change in accounting principle	(185,274)	(332,819)	(240,615)
Income tax (provision) benefit	(3,490)	3,135	10,522
Equity interest in (loss) of unconsolidated joint venture	(6,922)	(17,179)	—
(Loss) from continuing operations before cumulative effect of change in accounting principle	$(195,686)	$(346,863)	$(230,093)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of 3Com and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. As discussed in Note 6, we account for our investment in the Huawei-3Com joint venture by the equity method.

Non-Marketable Equity Securities and Other Investments

Non-marketable equity securities and other investments consist primarily of direct investments in private companies and investments in limited partnership venture capital funds. Non-marketable equity securities and other investments are accounted for at historical cost or, if we had significant influence over the investee, by the equity method. Cost basis investments are evaluated quarterly for other than temporary declines in fair value, which are reported in earnings. Investments accounted for by the equity method include investments in limited partnership venture capital funds. The net income or loss of limited partnership venture capital funds, and the fair values of the funds, are obtained from the funds' most recently issued financial statements. We record our proportionate share of the net income or loss of the funds, and adjustments reflecting changes in the fair values of the funds, in loss on investments, net. Net investment gains and losses recorded as a result of sales of our investments in the limited partnership venture capital funds are based on the difference between the net sales proceeds and the carrying value of the investment at the time of sale. Generally, in connection with such sales and with the approval of the applicable fund's general partners, we are released from all obligations with respect to future capital calls associated with the investment sold.

Note 6 Investment in Unconsolidated Joint Venture

On November 17, 2003, we formed the Huawei-3Com joint venture (H-3C) with a subsidiary of Huawei Technologies, Ltd. (Huawei). H-3C is domiciled in Hong Kong, and has its principal operating center in Hangzhou, China.

At the time of formation, we contributed cash of $160.0 million, assets related to our operations in China and Japan, and licenses related to certain intellectual property in exchange for a 49 percent ownership interest. We recorded our initial investment in H-3C at $160.1 million, reflecting our carrying value for the cash and assets contributed. Huawei contributed its enterprise networking business assets—including Local Area Network (LAN) switches and routers; engineering, sales, marketing resources and personnel; and licenses to its related intellectual property—in exchange for a 51 percent ownership interest. Huawei's contributed assets were valued at $178.2 million at the time of formation. Two years after formation of H-3C, we have the one-time option to purchase an additional two percent ownership interest from Huawei for an amount subject to negotiation by Huawei and us, however, the original agreement provides that the amount shall not exceed $28 million. In April 2005, we informed Huawei that we were interested in beginning negotiations concerning our purchase of such additional ownership interest. We are currently in the early stages of negotiating the terms of this transaction with Huawei, including the purchase price, closing date and other material terms. If this purchase is consummated, we will own a majority interest in the joint venture and expect to consolidate H-3C from the date of acquisition. Our purchase of such shares is subject to regulatory approval by the Chinese government, as well as the successful negotiation of the terms of the purchase between us and Huawei. Although we have begun negotiations with Huawei, there can be no assurance that regulatory approval will be granted, that we will be able to negotiate acceptable terms with Huawei, or that the transaction will be consummated at all. Both partners have the right to purchase all of the other partner's ownership interest through a bid process at any time after the third anniversary of H-3C's formation.

We account for our investment by the equity method. Under this method, we record our proportionate share of H-3C's net income or loss based on the most recently available quarterly financial statements. Since H-3C follows a calendar year basis of reporting, we reported our equity in H-3C's net loss for H-3C's fiscal period from April 1, 2004 through March 31, 2005 and the date of formation (November 17, 2003) through March 31, 2004 in our results of operations for fiscal 2005 and 2004. Prospectively, we will continue to report our equity in H-3C's net income or loss based on H-3C's most recent financial statements, two months in arrears.

Summarized information from the balance sheet and statement of operations for H-3C as of and for the period ended March 31, 2005, and as of March 31, 2004 and for the period from the date of its formation on November 17, 2003 through March 31, 2004 were as follows (in thousands):

	2005	2004
Balance sheet		
Current assets	$259,369	$242,904
Non-current assets	149,571	208,471
Current liabilities	109,097	86,825
Non-current liabilities	8,866	8,866
Statement of operations		
Sales	297,977	61,508
Gross profit	120,498	23,182
Loss from operations	17,064	34,517
Net loss	14,125	34,086

In determining our share of the net loss of H-3C certain adjustments are made to H-3C's reported results. These adjustments are made primarily to recognize the value and the related amortization expense associated with Huawei's contributed assets, as well as to defer H-3C's sales and gross profit on sales of products sold to us that remained in our inventory at the end of the accounting period. We recorded a loss of $6.9 million in fiscal 2005 and $4.6 million in fiscal 2004 as our share of H-3C's net loss for H-3C's fiscal period from April 1, 2004 through March 31, 2005 and the date of formation through March 31, 2004; this loss is included in our results of operations under the caption "Equity interest in loss of unconsolidated joint venture."

3Com and H-3C are parties to agreements for the sale of certain products between the two companies. During fiscal 2005, we recorded sales to H-3C of approximately $13.2 million and made purchases of approximately $26.9 million. During fiscal 2004, we recorded sales to H-3C of approximately $6.4 million and made purchases of approximately $9.7 million. As of May 31, 2005, we had deferred approximately $0.1 million of sales made to H-3C that had not yet been shipped to H-3C's end customer. In addition, we had trade receivables of $1.2 million as of May 31, 2005 and $2.1 million as of May 31, 2004 and payables of $5.7 million as of May 31, 2005 and $2.7 million as of May 31, 2004 with H-3C, which are included in the captions "Accounts receivable" and "Accounts payable" in the accompanying consolidated balance sheet. Also, as of May 31, 2004, we had an additional receivable from H-3C of approximately $0.7 million related to amounts due in reimbursement of costs paid on H-3C's behalf; this receivable is included in the caption "Other current assets" in the accompanying consolidated balance sheet.

2.110

THE WASHINGTON POST COMPANY (DEC)

Consolidated Balance Sheets

(In thousands)	2005	2004
Total current assets	$ 818,326	$ 750,509
Property, plant and equipment		
Buildings	327,569	304,606
Machinery, equipment and fixtures	1,839,983	1,730,997
Leasehold improvements	167,116	133,674
	2,334,668	2,169,277
Less accumulated depreciation	(1,325,676)	(1,197,375)
	1,008,992	971,902
Land	42,257	37,470
Construction in progress	91,383	80,580
	1,142,632	1,089,952
Investments in marketable equity securities	262,325	260,433
Investments in affiliates	66,775	61,814
Goodwill, net	1,125,570	1,023,140
Indefinite-lived intangible assets, net	494,692	493,192
Amortized intangible assets, net	22,814	7,879
Prepaid pension cost	593,469	556,747
Deferred charges and other assets	58,170	65,099
	$ 4,584,773	$ 4,308,765

Consolidated Statements of Income

(In thousands)	2005	2004	2003
Operating revenues			
Advertising	$1,317,484	$1,346,870	$1,222,324
Circulation and subscriber	747,079	741,810	706,248
Education	1,412,394	1,134,891	838,077
Other	76,930	76,533	72,262
	3,553,887	3,300,104	2,838,911
Operating costs and expenses			
Operating	1,909,615	1,717,059	1,549,262
Selling, general and administrative	931,337	835,367	792,292
Gain on sale of land	—	—	(41,747)
Depreciation of property, plant and equipment	190,543	175,338	173,848
Amortization of goodwill and other intangibles	7,478	9,334	1,436
	3,038,973	2,737,098	2,475,091
Income from operations	514,914	563,006	363,820
Equity in losses of affiliates	(881)	(2,291)	(9,766)
Interest income	3,385	1,622	953
Interest expense	(26,754)	(28,032)	(27,804)
Other income (expense), net	8,980	8,127	55,385
Income before income taxes	$ 499,644	$ 542,432	$ 382,588

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Investments in Affiliates

The Company uses the equity method of accounting for its investments in and earnings or losses of affiliates that it does not control but over which it does exert significant influence. The Company considers whether the fair values of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the affiliate's industry), then a write-down would be recorded to estimated fair value.

C (In Part): Investments

Investments in Affiliates

The Company's investments in affiliates at January 1, 2006 and January 2, 2005 include the following (in thousands):

	2005	2004
BrassRing	$11,349	$ 8,755
Bowater Mersey Paper Company	54,407	52,112
Los Angeles Times-Washington Post News Service	1,019	947
	$66,775	$61,814

At the end of 2005, the Company's investments in affiliates consisted of a 49.4% interest in BrassRing LLC, an Internet-based hiring management company; a 49% interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia; and a 50% common stock interest in the Los Angeles Times-Washington Post News Service, Inc. Summarized financial data for the affiliates' operations are as follows (in thousands):

	2005	2004	2003
Financial position			
Working capital	$ 13,861	$ 9,014	$ 11,108
Property, plant and equipment	131,823	137,321	140,917
Total assets	214,333	202,904	214,658
Long-term debt	—	—	—
Net equity	164,801	155,147	149,584
Results of operations			
Operating revenues	$236,233	$221,618	$174,505
Operating income(loss)	3,513	1,695	(18,753)
Net loss	(1,806)	(4,577)	(20,164)

The following table summarizes the status and results of the Company's investments in affiliates (in thousands):

	2005	2004
Beginning investment	$61,814	$61,312
Additional investment	4,981	—
Equity in losses	(881)	(2,291)
Dividends and distributions received	(850)	(800)
Foreign currency translation	1,711	3,593
Ending investment	$66,775	$61,814

BrassRing accounted for $2.4 million of the 2005 equity in losses of affiliates, compared to $3.1 million in 2004 and $7.7 million in 2003.

On January 1, 2003, the Company sold its 50% interest in The International Herald Tribune newspaper for $65 million; the Company reported a $49.8 million pre-tax gain that is included in "Other income (expense), net" in the Consolidated Statements of Income.

Fair Value

2.111

CERIDIAN CORPORATION (DEC)

(Dollars in millions)	2005	2004
Total current assets	$1,025.7	$ 829.2
Property, plant and equipment, net	121.5	140.9
Goodwill	936.5	931.8
Other intangible assets, net	35.6	43.6
Software and development costs, net	71.8	75.7
Deferred income taxes	58.0	26.7
Investments	12.9	16.4
Derivative instruments	0.5	28.1
Other noncurrent assets	28.6	23.7
Total assets before customer funds	2,291.1	2,116.1
Customer funds	4,341.2	4,096.0
Total assets	$6,632.3	$6,212.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Accounting Policies

Cash and Investments, Including Derivatives (In Part)

We classify investments that are readily convertible to cash within three months of purchase as cash equivalents in our consolidated balance sheets and report those amounts at amortized cost (which approximates fair value). We account for our investments in marketable securities under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments other than marketable securities or derivative instruments under APB 18, "The Equity Method of Accounting for Investments in Common Stock." Our investments of customer funds in marketable securities were classified as held-to-maturity, and carried at amortized cost until May 2004, when we reclassified these investments as "available for sale." Customer funds and other investments in marketable equity or debt securities are classified as available-for-sale and reported in the balance sheet at fair value, with changes in fair value reported in accumulated other comprehensive income as further discussed in Note B, "Investing Activity."

B (In Part): Investing Activity

Investments and Acquisitions of Businesses (In Part)

At December 31, 2005 and 2004, we held the following publicly-held investments that were accounted for under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" as "available for sale," and privately-held investments that were accounted for on a cost basis:

		December 31, 2005		December 31, 2004	
Investment	Holding	Amount	% Owned	Amount	% Owned
The Ultimate Software Group, Inc. ("Ultimate")	Public	$ 6.5	under 5%	$ 7.7	under 5%
U.S.I. Holdings Corporation ("USIH")	Public	—	—	2.3	under 5%
Priority Transportation	Private	2.5	under 5%	2.5	under 5%
iSarla, Inc.	Private	1.6	19.9%	1.6	19.9%
ProfitPoint, Inc.	Private	1.5	17.5%	1.5	17.5%
SASH Management, LLC	Private	0.6	19.9%	0.6	19.9%
Other	Private	0.2		0.2	
Total investments		$12.9		$16.4	

Publicly Held Investments

At December 31, 2005, we held 340,922 shares of Ultimate common stock. During 2005, we sold 290,789 shares of Ultimate common stock for proceeds of $4.8 and a net gain of $3.6. During December 2005, we paid $0.3 to exercise a warrant for 75,000 shares of Ultimate common stock. Also during December 2005, we sold all the remaining 199,311 shares of USIH common stock for proceeds of $2.7 and a net gain of $0.7. Gains and losses on sales of marketable securities are reported in other expense (income) in our consolidated statements of operations.

At December 31, 2004, we held 556,711 shares of Ultimate common stock and a warrant to purchase an additional 75,000 Ultimate common shares at a price of $4.00 per share. In 2004, we sold 193,289 shares of Ultimate common stock for $2.4 and a net gain of $1.6. In addition, we held 199,311 shares of common stock of USIH at December 31, 2004. In 2004, we sold 582,758 shares of common stock of USIH for $8.7 and a net gain of $2.9.

The Ultimate and USIH securities are treated as "available for sale" securities. The carrying value of these securities has been adjusted at each balance sheet date to reflect the market price reported by the stock exchange that lists those securities. The amount of this change is reported as unrealized gain or loss from marketable securities in accumulated other comprehensive income. The cost and fair values of securities available for sale at December 31, 2005 and 2004 were as follows:

	Cost	Gross Unrealized Gains	Fair Value
At December 31, 2005			
Ultimate	$1.4	$5.1	$ 6.5
At December 31, 2004			
Ultimate	$2.3	$5.4	$ 7.7
USIH	2.0	0.3	2.3
Total at December 31, 2004	$4.3	$5.7	$10.0

2.112

XILINX, INC. (MAR)

(In thousands)	2005	2004
Total current assets	$1,466,364	$1,346,787
Property, plant and equipment, at cost		
Land	61,445	61,445
Buildings	237,775	226,833
Machinery and equipment	285,445	254,854
Furniture and fixtures	45,147	38,603
	629,812	581,735
Accumulated depreciation and amortization	(285,296)	(246,621)
Net property, plant and equipment	344,516	335,114
Long-term investments	766,596	722,436
Investment in United Microelectronics Corporation	246,110	324,026
Goodwill	119,415	111,627
Acquisition-related intangibles, net	20,004	16,813
Other assets	76,191	80,670
Total assets	$3,039,196	$2,937,473

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash Equivalents and Investments

Cash equivalents consist of highly liquid investments with original maturities from the date of purchase of three months or less. Short-term investments consist of tax-advantaged municipal bonds and commercial paper with original maturities greater than three months and remaining maturities less than one year from the balance sheet date. Short-term investments also include tax-advantaged auction rate securities. Long-term investments consist of U.S. Treasury notes, corporate bonds, government agency bonds and tax-advantaged municipal bonds with remaining maturities greater than one year, unless the investments are specifically identified to fund current operations, in which case they are classified as short-term investments. Equity investments are also classified as long-term investments since they are not intended to fund current operations.

The Company maintains its cash balances with various banks with high quality ratings, and investment banking and asset management institutions. The Company manages its liquidity risk by investing in a variety of money market funds, high-grade commercial paper, corporate bonds, municipal bonds and U.S. Treasury notes. This diversification of investments is consistent with its policy to maintain liquidity and ensure the ability to collect principal. The Company maintains an offshore investment portfolio denominated in U.S. dollars with investments in non-U.S. based issuers. All investments are made pursuant to corporate investment policy guidelines. Investments include commercial paper, Euro dollar bonds, Euro dollar floaters (Euro dollar bonds with coupon resets at predetermined intervals) and offshore money market funds.

Management classifies investments as available-for-sale or held-to-maturity at the time of purchase and re-evaluates such designation at each balance sheet date, although classification is not generally changed. Securities are classified as held-to-maturity when the Company has the positive intent and the ability to hold the securities until maturity. Held-to-maturity securities are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, as well as any interest on the securities, is included in interest income. No investments were classified as held-to-maturity at April 2, 2005 or April 3, 2004. Available-for-sale securities are carried at fair value with the unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income and other, net. The fair values for marketable debt and equity securities are based on quoted market prices. The cost of securities matured or sold is based on the specific identification method.

In determining whether a decline in value of non-marketable equity investments in private companies is other-than-temporary, the assessment is made by considering available evidence including the general market conditions in the investee's industry, the investee's product development status, the investee's ability to meet business milestones and the financial condition and near-term prospects of the individual investee, including the rate at which the investee is using its cash and the investee's need for possible additional funding at a lower valuation. When a decline in value is deemed to be other-than-temporary, the Company recognizes an impairment loss in the current period's operating results to the extent of the decline.

Recent Accounting Pronouncements (In Part)

In March 2004, the FASB issued Emerging Issues Task Force Issue No. 03-1 (EITF 03-1), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provides new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1 until further notice; however the disclosure requirements remain effective for annual periods ending after June 15, 2004. Accordingly, additional disclosures as required by EITF 03-1 are included in Note 4. The Company will evaluate the impact of the adoption of the accounting provisions of EITF 03-1 once final guidance is issued.

Note 3. Investment in United Microelectronics Corporation

In September 1995, Xilinx, UMC and other parties entered into a joint venture to construct a wafer fabrication facility in Taiwan, known as USIC. The Company made a total cumulative cash investment of $107.1 million in USIC. The investment entitled Xilinx to receive up to 31.25% of USIC's wafer capacity.

In January 2000, USIC merged into UMC and Xilinx's equity position in USIC converted into common shares of UMC, which are publicly traded on the Taiwan Stock Exchange. As a result of this merger, Xilinx received approximately 222 million shares of UMC common stock, which represented approximately 2% of the combined UMC Group, and the Company recognized a non-cash gain of $674.7 million ($398.1 million net of taxes) in fiscal 2000. Since the merger, Xilinx has received a total of approximately 174 million UMC shares in five separate annual stock dividend distributions increasing the Company's investment holdings to approximately 396 million shares. The Company retains wafer capacity rights in UMC equivalent to those it previously had in USIC, so long as it retains a certain percentage of its original UMC shares. If the Company's holdings fall below the specified level, its wafer capacity rights would be prorated in accordance with the number of UMC shares held.

Restrictions on the sale of these shares, imposed by UMC and the Taiwan Stock Exchange, began to expire in July 2000 and fully expired in January 2004. As of April 2, 2005, the entire UMC investment was unrestricted.

At April 2, 2005, the fair value of the Company's equity investment in UMC stock totaled $246.1 million on the Company's consolidated balance sheet. The Company accounts for its investment in UMC as available-for-sale marketable securities in accordance with SFAS 115.

The following table summarizes the cost basis and fair values of the investment in UMC:

	2005		2004	
(In millions)	Adjusted Cost	Fair Value	Adjusted Cost	Fair Value
Total	$239.1	$246.1	$239.0	$324.0

During fiscal 2005, the fair value of the UMC investment decreased by $77.9 million. At April 2, 2005, the Company recorded $2.9 million of deferred tax liabilities and a net $4.2 million balance in accumulated other comprehensive income associated with the UMC investment.

Note 4. Financial Instruments

The following is a summary of available-for-sale securities.

	2005				2004			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Losses Unrealized	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 195,405	$ 14	$ (225)	$ 195,194	$ 153,899	$ —	$ —	$ 153,899
Commercial paper	344,322	—	—	344,322	98,340	—	—	98,340
Corporate bonds	357,351	2,075	(6,177)	353,249	209,770	202	(98)	209,874
Auction rate securities	129,291	—	(50)	129,241	277,998	30	(712)	277,316
Municipal bonds	377,896	432	(4,143)	374,185	426,203	2,241	(393)	428,051
U.S. Treasury notes	33,851	—	(648)	33,203	52,144	802	—	52,946
Government agency bonds	126,818	18	(2,195)	124,641	257,554	3,445	(125)	260,874
Investment in UMC	239,064	7,046	—	246,110	239,042	84,984	—	324,026
Investment—other	9	—	—	9	9	—	—	9
	$1,804,007	$9,585	$(13,438)	$1,800,154	$1,714,959	$91,704	$(1,328)	$1,805,335
Included in								
Cash and cash equivalents				$ 375,278				$ 252,021
Short-term investments				412,170				506,852
Long-term investments				766,596				722,436
Investment in UMC				246,110				324,026
				$1,800,154				$1,805,335

The following table shows the fair values and gross unrealized losses of the Company's investments, aggregated by investment category, for individual securities that have been in a continuous unrealized loss position, at April 2, 2005:

	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Money market funds	$ 30,436	$(225)	$ —	$ —	$ 30,436	$ (225)
Corporate bonds	67,503	(355)	244,709	(5,822)	312,212	(6,177)
Auction rate securities	3,711	—	4,950	(50)	8,661	(50)
Municipal bonds	5,292	(15)	305,268	(4,128)	310,560	(4,143)
U.S. Treasury notes	—	—	33,205	(648)	33,205	(648)
Government agency bonds	30,382	(234)	92,734	(1,961)	123,116	(2,195)
	$137,324	$(829)	$680,866	$(12,609)	$818,190	$(13,438)

The gross unrealized losses on these investments were primarily due to interest rate fluctuations and market-price movements. The Company reviewed the investment portfolio and determined that the gross unrealized losses on these investments at April 2, 2005 were temporary in nature. The Company has the ability and intent to hold these investments until recovery of their carrying values. The Company also believes that it will be able to collect both principal and interest amounts due to the Company at maturity, given the high credit quality of these investments.

The amortized cost and estimated fair value of marketable debt securities (commercial paper, corporate bonds, municipal bonds, U.S. Treasury notes and government agency bonds) at April 2, 2005, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

(In thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 463,524	$ 463,013
Due after one year through five years	613,192	602,105
Due after five years through ten years	98,450	97,572
Due after ten years	65,072	66,910
	$1,240,238	$1,229,600

Certain information related to available-for-sale securities is as follows:

(In thousands)	2005	2004	2003
Gross realized gains on sale of available-for-sale securities	$ 1,301	$ 7,360	$ 5,836
Gross realized losses on sale of available-for-sale securities	(796)	(710)	(382)
Net realized gains on sale of available-for-sale securities	$ 505	$ 6,650	$ 5,454
Amortization of (premiums)/discounts on available-for-sale securities	$(4,146)	$(4,427)	$(5,000)

Cost

2.113

UNIVISION COMMUNICATIONS INC. (DEC)

(In thousands)	2005	2004
Total current assets	$ 633,600	$ 638,489
Property and equipment, net, less accumulated depreciation of $389,838 in 2005 and $320,299 in 2004	563,958	551,138
Intangible assets, net	4,271,584	4,283,049
Goodwill	2,231,238	2,199,199
Deferred financing costs, net, less accumulated amortization of $11,742 in 2005 and $8,432 in 2004	7,123	10,433
Program rights	25,960	36,879
Investments in equity method investees	54,644	63,885
Investments in cost method investees	299,775	371,040
Other assets	40,454	73,014
Total assets	$8,128,336	$8,227,126

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Principles of Consolidation (In Part)

For investments in which the Company owns 20% to 50% of voting shares and does have significant influence over operating and financial policies, the equity method of accounting is used. Accordingly, the Company's share of the earnings and losses of these companies are included in the equity loss in unconsolidated subsidiaries in the accompanying consolidated statements of income of the Company. For investments in which the Company owns more than 20% of the non-voting shares (the Company has an approximate 14.9% non-voting ownership interest on a fully converted basis in Entravision) and does not have significant influence over operating and financial policies of the investees, the cost method of accounting is used. For investments in which the Company owns less than 20% of the voting shares and does not have significant influence, the cost method of accounting is used. Under the cost method of accounting, the Company does not record its share in the earnings and losses of the companies in which it has an investment.

Investment Valuation

The Company monitors the value of its equity and cost method investments for indicators of impairment, including changes in market conditions and/or the operating results of its underlying investments that may result in the inability to recover the carrying value of the investment. The Company will record an impairment charge if and when it believes any investment has experienced a decline that is other than temporary. See note "14. Investments and Variable Interest Entities."

14 (In Part): Investments and Variable Interest Entities

Investments consist of the following as of December 31, 2005 and 2004:

(In thousands)	2005	2004
Investments in equity method investees		
St. Louis / Denver LLC	$ 52,165	$ 61,402
TuTV LLC	2,479	2,483
	$ 54,644	$ 63,885
Investments in cost method investees		
Entravision Communications Corporation	$262,918	$335,995
Equity Broadcasting Corporation	36,857	35,045
	$299,775	$371,040

Investments

As part of the consent decree pursuant to which the United States Department of Justice ("DOJ") approved our acquisition of Hispanic Broadcasting Corporation, the Company exchanged all of its Entravision voting common stock for 36,926,600 shares of Class U common stock. The Entravision Class U common stock has limited voting rights and does not include the right to elect directors. Also, as part of the consent decree with the DOJ, we are required to sell enough of our Entravision stock so that our ownership of Entravision on a fully converted basis, which includes full conversion of employee options and all convertible securities, does not exceed 15% by March 26, 2006 and 10% by March 26, 2009.

The Company recorded a charge of $24,741,000 for the three months ended December 31, 2005, related to an other than temporary decline in the value of its Entravision stock. The charge is based on the fair value of our investment in Entravision common stock of $7.12 per share on the last trading day of 2005 compared to our average cost basis of $7.79 per share. The Company's new cost basis in its investment in Entravision stock is now $7.12. Entravision's stock price at March 9, 2006 was $7.60. Any gain or loss on future transactions involing Entravision stock will be measured by comparing our newly established cost basis of $7.12 per share to the fair value of the Entravision stock at the transaction date. The Company recorded a charge of $48,336,000 for the three months ended June 30, 2005, related to an other than temporary decline in the value of its Entravision stock. We will continue to monitor the Entravision stock price, its operating results, the performance and outlook for the media sector in general and other information available to determine if the value of our investment becomes other than temporarily impaired in subsequent reporting periods. The future sale of the stock will have no impact on the Company's existing television station affiliation agreements with Entravision. At December 31, 2005, the Company's ownership of Entravision on a fully converted basis was approximately 27%. Following the acquisition of the Entravision radio stations on January 1, 2006, the Company's ownership of Entravision on a fully converted basis was approximately 20%.

On March 2, 2006, the Company and Entravision Communications Corporation completed the repurchase by Entravision of 7 million shares of Entravision Class U common stock held by the Company, for an aggregate purchase price of $51.1 million, or $7.30 per share. This share repurchase transaction, coupled with the recent closing of the Company's purchase of Entravision's radio stations serving the San Francisco/San Jose market for approximately 12.6 million shares of Entravision Class U common stock, will reduce the Company's non-voting ownership interest on a fully converted basis in Entravision to approximately 14.9%.

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In June 2001, the Company purchased for $26,000,000 an approximate 20% non-voting preferred stock equity interest in Equity Broadcasting Corporation ("EBC"), which has 33 full power and/or network televisions permits, licenses, and applications and 60 low-power television properties. In addition, in September 2001, the Company purchased shares of Equity Broadcasting's Class A common stock for approximately $2,500,000. The Company currently owns approximately 6% of Equity Broadcasting's voting common stock. This investment is accounted for under the cost method.

In January 2004, the Company, EBC and others agreed to amend EBC's Articles of Incorporation to allow shares of Series A convertible preferred stock of EBC to receive a stock dividend of 7% of the original issue price commencing on the date of the initial issuance, which was June 8, 2001. The dividend is paid in preference to all other junior stock as and when declared or on liquidation, is added to amounts received on redemption and is to be converted on conversion into common stock. Since the Company was not entitled to the dividend prior to January 2004, the Company recorded a stock dividend of $ 5,094,000 in the first quarter of 2004 based on the Company's initial investment of approximately $26,000,000 made in June 2001. The Series A convertible preferred stock has a mandatory redemption date of June 8, 2008. The stock dividend income for the twelve months ended December 31, 2005 was $1,812,000. The EBC stockholders approved the Articles amendment in July 2004.

NONCURRENT RECEIVABLES

2.114 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities*, states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months."

2.115 *SFAS No. 107* defines noncurrent receivables as financial instruments. *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of noncurrent receivables unless it is not practicable to estimate that value. 61 survey companies made 67 fair value disclosures. 14 of those disclosures used market or broker quotes of the noncurrent receivables to determine fair value. 25 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. One of those disclosures estimated fair value using other valuation methods. 49 disclosures presented carrying amounts which approximated fair value of noncurrent receivables. In addition, there were 25 disclosures in which carrying value was compared to fair value in an exposition or a table.

2.116 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.117 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.118 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.119 *SFAS No. 125*, as amended by *SFAS No. 133* and as replaced by *SFAS No. 140*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. This topic and the related examples are covered under the "Receivables Sold or Collateralized" part of this section.

2.120 Table 2-18 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

2.121

TABLE 2-18: NONCURRENT RECEIVABLES

	2005	2004	2003	2002
Caption Title				
Finance receivable	35	37	22	17
Long-term receivables	33	26	28	44
Notes receivable	32	33	21	25
Insurance receivable	25	17	12	11
Receivables from related party	8	16	13	14
Other	29	39	40	35
Receivables combined with other investments, deposits, etc	5	4	9	5
Total Presentations	**158**	**172**	**145**	**151**
Number of Companies				
Presenting noncurrent receivables	149	150	130	135
Not presenting noncurrent receivables	451	450	470	465
Total Companies	**600**	**600**	**600**	**600**

2.122

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	2005	2004
Total current assets	$ 833,414	$ 773,100
Net property, plant, and equipment	456,310	465,786
Goodwill	1,154,406	1,063,711
Prepaid and intangible pension assets	362,158	331,860
Deferred income tax asset	—	38,940
Deferred charges and other non-current assets	209,522	127,347
Total assets	$3,015,810	$2,800,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

5 (In Part): Goodwill and Deferred Charges and Other Non-Current Assets

Deferred charges and other non-current assets consists of the following:

	2005	2004
Gross debt issuance costs	$ 31,145	$ 24,809
Less accumulated amortization	(9,255)	(4,555)
Net debt issuance costs	21,890	20,254
Other intangible assets	144,770	72,299
Environmental remediation receivable	27,958	17,191
Other non-current assets	14,904	17,603
Total deferred charges and other non-current assets	$209,522	$127,347

11 (In Part): Contingencies

Environmental Remediation

ATK's operations and ownership or use of real property are subject to a number of federal, state, and local environmental laws and regulations. At certain sites that ATK owns or operates or formerly owned or operated, there is known or potential contamination that ATK is required to investigate or remediate. ATK could incur substantial costs, including remediation costs, fines, and penalties, or third party property damage or personal injury claims, as a result of violations or liabilities of environmental laws or non-compliance with environmental permits.

The liability for environmental remediation represents management's best estimate of the present value of the probable and reasonably estimable costs related to known remediation obligations. The receivable represents the present value of the amount that ATK expects to recover, as discussed below. Both the liability and receivable have been discounted to reflect the present value of the expected future cash flows, using a discount rate, net of estimated inflation, of 3.0% and 3.5% as of March 31, 2005 and 2004, respectively. The following is a summary of the amounts recorded for environmental remediation:

	2005		2004	
	Liability	Receivable	Liability	Receivable
Amounts (payable) receivable	$(70,791)	$40,213	$(58,625)	$25,876
Unamortized discount	11,918	(5,907)	10,975	(3,745)
Present value amounts (payable) receivable	$(58,873)	$34,306	$(47,650)	$22,131

Amounts payable or receivable in periods beyond fiscal 2006 have been classified as non-current on the March 31, 2005 balance sheet. As such, of the $58,873 net liability, $7,899 is recorded within other current liabilities and $50,974 is recorded within other non-current liabilities. Of the $34,306 net receivable. $6,348 is recorded within other current assets and $27,958 is recorded within other non-current assets. As of March 31, 2005, the estimated discounted range of reasonably possible costs of environmental remediation was $58,873 to $97,689.

ATK expects that a portion of its environmental compliance and remediation costs will be recoverable under U.S. Government contracts. Some of the remediation costs that are not recoverable from the U.S. Government that are associated with facilities purchased in a business acquisition may be covered by various indemnification agreements, as described below.

- As part of its acquisition of the Hercules Aerospace Company in fiscal 1995, ATK assumed responsibility for environmental compliance at the facilities acquired from Hercules (the Hercules Facilities). ATK believes that a portion of the compliance and remediation costs associated with the Hercules Facilities will be recoverable under U.S. Government contracts, and that those environmental remediation costs not recoverable under these contracts will be covered by Hercules Incorporated (Hercules) under environmental agreements entered into in connection with the Hercules acquisition. Under these agreements, Hercules has agreed to indemnify ATK for environmental conditions relating to releases or hazardous waste activities occurring prior to ATK's purchase of the Hercules Facilities; fines relating to pre-acquisition environmental compliance; and environmental claims arising out of breaches of Hercules' representations and warranties. Hercules is not required to indemnify ATK for any individual claims below $50. Hercules is obligated to indemnify ATK for the lowest cost response of remediation required at the facility that is acceptable to the applicable regulatory agencies. ATK is not responsible for conducting any remedial activities with respect to the Kenvil, NJ facility or the Clearwater, FL facility. In accordance with its agreement with Hercules, ATK notified Hercules of all known contamination on federal lands on or before March 31, 2005.
- ATK generally assumed responsibility for environmental compliance at the Thiokol Facilities acquired from Alcoa Inc. in fiscal 2002. While ATK expects that a portion of the compliance and remediation costs associated with the acquired Thiokol Facilities will be recoverable under U.S. Government contracts, ATK has recorded an accrual to cover those environmental remediation costs at these facilities that will not be recovered through U.S. Government contracts. In accordance with its agreement with Alcoa, ATK notified Alcoa of all known environmental remediation issues as of January 30, 2004. Of these known issues, ATK is responsible for any costs not recovered through U.S. Government contracts at Thiokol Facilities up to $29,000, ATK and Alcoa have agreed to split evenly any amounts between $29,000 and $49,000, and ATK is responsible for any payments in excess of $49,000.
- With respect to the civil ammunition business' facilities purchased from Blount in fiscal 2002, Blount has agreed to indemnify ATK for certain compliance and remediation liabilities, to the extent those liabilities are related to pre-closing environmental conditions at or related to these facilities. Some other remediation costs are expected to be paid directly by a third party pursuant to an existing indemnification agreement with Blount. Blount's indemnification obligations relating to environmental matters, which extend through December 7, 2006, are capped at $30,000, less any other indemnification payments made for breaches of representations and warranties. The third party's obligations, which extend through November 4, 2007, are capped at approximately $125,000, less payments previously made.

ATK cannot ensure that the U.S. Government, Hercules, Alcoa, Blount, or other third parties will reimburse it for any particular environmental costs or reimburse ATK in a timely manner or that any claims for indemnification will not be disputed. U.S. Government reimbursements for cleanups are financed out of a particular agency's operating budget and the ability of a particular governmental agency to make timely reimbursements for cleanup costs will be subject to national budgetary constraints. ATK's failure to obtain full or timely reimbursement from the U.S. Government, Hercules, Alcoa, Blount, or other third parties could have a material adverse effect on its operating results, financial condition, or cash flows. While ATK has environmental management programs in place to mitigate these risks, and environmental laws and regulations have not had a material adverse effect on ATK's operating results, financial condition, or cash flows in the past, it is difficult to predict whether they will have a material impact in the future.

At March 31, 2005, the aggregate undiscounted amounts payable for environmental remediation costs, net of expected recoveries, are estimated to be:

Fiscal 2006	$ 1,598
Fiscal 2007	2,694
Fiscal 2008	642
Fiscal 2009	3,484
Fiscal 2010	3,504
Thereafter	18,656
Total	$30,578

ATK does not anticipate that resolution of the environmental contingencies in excess of amounts accrued, net of recoveries, will materially affect its future operating results, financial condition, or cash flows. There were no material insurance recoveries related to environmental remediations during fiscal 2005, 2004, or 2003.

2.123

GENCORP INC. (NOV)

(In millions)	2005	2004
Total current assets	$ 281	$ 474
Noncurrent assets		
Restricted cash	—	178
Property, plant and equipment, net	140	145
Recoverable from the U.S. government and other third parties for environmental remediation costs	171	197
Prepaid pension asset	233	278
Goodwill	102	103
Intangible assets	27	28
Other noncurrent assets	103	92
Total noncurrent assets	776	1,021
Total assets	$1,057	$1,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Other Noncurrent Assets

(In millions)	2005	2004
Note receivable	$ 26	$—
Other receivable	26	23
Real estate held for entitlement and leasing	32	27
Deferred financing costs	17	21
Other	28	21
	129	92
Less: allowance on note receivable	(26)	—
Other noncurrent assets	$103	$92

On November 30, 2005, the Company received a $26 million unsecured subordinated note receivable from American Pacific Corporation in connection with sale of the Company's Fine Chemicals business (see Note 18). The Company recorded a full valuation allowance on the note since the collection was uncertain as of November 30, 2005.

As of November 30, 2005 and 2004, the Company had a receivable of $26 million and $23 million from Northrop Grumman Corporation related to amounts due related to environmental remediation (see Note 14 (d)).

14 (In Part): Commitments and Contingencies

d (In Part): Environmental Reserves and Estimated Recoveries

Estimated Recoveries

On January 12, 1999, Aerojet and the U.S. government implemented the October 1997 Agreement in Principle (Global Settlement) resolving certain prior environmental and facility disagreements, with retroactive effect to December 1, 1998. The Global Settlement covered all environmental contamination at the Sacramento and Azusa sites. Under the Global Settlement, Aerojet and the U.S. government resolved disagreements about an appropriate cost-sharing ratio. The Global Settlement provides that the cost-sharing ratio will continue for a number of years.

Pursuant to the Global Settlement covering environmental costs associated with Aerojet's Sacramento site and its former Azusa site, the Company can recover up to 88% of its environmental remediation costs for these sites through the establishment of prices for Aerojet's products and services sold to the U.S. government. Allowable environmental costs are charged to these contracts as the costs are incurred. Aerojet's mix of contracts can affect the actual reimbursement made by the U.S. government. Because these costs are recovered through forward-pricing arrangements, the ability of Aerojet to continue recovering these costs from the U.S. government depends on Aerojet's sustained business volume under U.S. government contracts and programs and the relative size of Aerojet's commercial business.

In conjunction with the sale of EIS, Aerojet entered into an agreement with Northrop whereby Aerojet will be reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement. Amounts reimbursed are subject to annual limitations, with excess amounts carrying over to subsequent periods, the total of which will not exceed $190 million over the term of the agreement, which ends in 2028. As of November 30, 2005, $148 million in potential future reimbursements were available over the remaining life of the agreement.

As part of the acquisition of the Atlantic Research Corporation (ARC) propulsion business, Aerojet entered into an agreement with ARC pursuant to which Aerojet is responsible for up to $20 million of costs (Pre-Close Environmental Costs) associated with environmental issues that arose prior to Aerojet's acquisition of the ARC propulsion business. Pursuant to a separate agreement with the U.S. government which was entered into prior to closing of the ARC acquisition, these Pre-Close Environmental Costs will be treated as allowable overhead costs combined with Aerojet's environmental costs under the Global Settlement, and will be recovered through the establishment of prices for Aerojet's products and services sold to the U.S. government. These costs were allocated to all Aerojet operations (including the previously excluded Redmond, Washington operations) beginning in 2005.

As a result of the ARC acquisition, Aerojet signed a Memorandum of Understanding with the U.S. government agreeing to key assumptions and conditions that preserved the original methodology used in recalculating the percentage split between Aerojet and Northrop. Aerojet presented a proposal to the U.S. government based on the Memorandum of Understanding and expects to complete an agreement in the near term.

In conjunction with the review of its environmental reserves discussed above, the Company revised its estimate of costs that will be recovered under the Global Settlement based on business expected to be conducted under contracts with the U.S. government and its agencies in the future. In fiscal 2003, due to the Global Settlement and Memorandum of Understanding with the government, both discussed above, which allow for costs to be allocated to all Aerojet operations beginning in 2005 and for a decrease of the costs allocated to Northrop annually, Aerojet increased its environmental reserves by $12 million and estimated recoveries by $13 million, which resulted in other income of $1 million in the Company's statement of operations. The recovery of costs under the Global Settlement is based, in part on the relative size of Aerojet's commercial business base, which has historically included the Fine Chemicals' operating segment because it was previously a division of Aerojet. As a result of the plan to sell Fine Chemicals, Aerojet revised its estimated recovery of costs under the Global Settlement during fiscal 2004. As a result, Aerojet incresed its estimated recoveries by $38 million and recorded $16 million of other income (expense), net in fiscal 2004. In fiscal 2005, the increase to the reserve of $14 million in fiscal 2005 resulted in a corresponding increase to the receivable and a net impact of $5 million in net loss.

18 (In Part): Discontinued Operations

During the third quarter of fiscal 2004, the Company classified the Fine Chemicals segment as a discontinued operation as a result of its plans to sell the business. The plan was a result of management's decision to focus its capital and resources on its Aerospace and Defense and Real Estate operating segments. In July 2005, the Company signed a definitive agreement to sell the Fine Chemicals business to American Pacific Corporation (AMPAC) for $119 million, consisting of $100 million of cash, seller note of $19 million, and the assumption by the buyer of certain liabilities. Subsequently, AMPAC and the Company amended the purchase agreement to modify the purchase price and payment terms related to the Fine Chemicals sale. The revised purchase price consisted of $88 million of cash paid at closing, unsecured subordinated seller note of $26 million delivered at closing, a contingent payment of up to $5 million if the Fine Chemicals business achieves specified earning targets in the twelve month period ending September 30, 2006, and the assumption by the buyer of certain liabilities. Income will be recorded in the future on the seller note of $26 million and any contingent payment when realized. During the third quarter of fiscal 2005, the Company recorded a loss of $28 million on the difference between estimated cash proceeds to be received on disposition less the carrying value of net assets being sold and related transaction selling costs. An additional loss of $1 million was recorded in the fourth quarter of fiscal 2005 to reflect the net assets of the Fine Chemicals business and management's estimate of the proceeds from the sale. The Company closed the transaction on November 30, 2005. For operating segment reporting, the Fine Chemicals business was previously reported as a separate operating segment.

2.124

IKON OFFICE SOLUTIONS, INC. (SEP)

(In thousands)	2005	2004
Total current assets	$1,727,914	$2,065,246
Long-term lease receivables, net	458,338	753,146
Equipment on operating leases, net of accumulated depreciation of: 2005—$76,774; 2004—$76,456	101,614	78,673
Property and equipment, net	144,309	164,132
Goodwill	1,277,785	1,286,564
Unsold residual value	44,943	45,548
Other assets	76,916	125,104
Total assets	$3,831,819	$4,518,413

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Lease Receivables

Our wholly-owned finance subsidiaries are engaged in purchasing office equipment and leasing the equipment to customers under direct financing leases.

Components of lease receivables, net, are as follows:

	2005	2004
Gross receivables	$732,767	$1,203,785
Unearned income	(110,315)	(197,559)
Unguaranteed residuals	160,427	210,981
Lease default reserve	(6,613)	(6,446)
Lease receivables, net	776,266	1,210,761
Less: current portion	317,928	457,615
Long-term lease receivables, net	$458,338	$ 753,146

The lease default balances at September 30, 2005 and 2004, relate to our European lease portfolio.

As a result of the Transactions discussed in Note 2, we sold $2,027,832 of our lease receivables related to IOSC and IKON Canada to GE during fiscal 2004. Under the Transactions, GE assumed substantially all risks related to lease defaults for both the retained and sold lease receivables up to approximately $86,000, which management believes is sufficient to cover all reasonably foreseeable defaults for such leases based on historical trends. In addition, during fiscal 2005 and 2004, we sold $249,083 and $383,381, respectively, of our lease receivables to GE and other syndicators in other transactions as discussed in Note 6.

At September 30, 2005, future minimum payments to be received under direct financing leases for each of the succeeding fiscal years are as follows: 2006—$333,639; 2007—$237,885; 2008—$105,778; 2009—$43,418; 2010—$11,543; and thereafter—$504.

Our U.S. Conduits were terminated upon execution of the U.S. Transaction on March 31, 2004. During fiscal 2004, we entered into revolving asset securitization transactions whereby we pledged $361,952 of lease receivables for $306,134 in cash.

Our Canadian Conduit was terminated upon execution of the Canadian Transaction on June 30, 2004. During fiscal 2004, we entered into revolving asset securitization transactions whereby we pledged $14,278 of lease receivables for $12,136 in cash.

The U.K. Conduit, which allows us to receive up to £85,000 of cash, was structured as a revolving asset securitization agreement so that as collections reduce previously pledged or transferred interests in the leases, additional leases can be pledged or transferred up to the above amount. As of September 30, 2005, we pledged or transferred $156,869 in financing lease receivables as collateral for the outstanding U.K. Conduit balance of $123,529. As of September 30, 2004, we pledged or transferred $152,274 in financing lease receivables as collateral for the outstanding U.K. Conduit balance of $128,536.

As of September 30, 2005, IKON Capital PLC had approximately $26,471 available under the U.K. Conduit. The U.K. Conduit names IKON Capital PLC as the initial servicer of the lease portfolios.

Future minimum lease payments to be received under operating leases for each of the succeeding fiscal years are as follows: 2006—$10,289; 2007—$8,661; 2008—$4,903; 2009—$2,366; 2010—$1,030; and thereafter—$142.

6 Sale of Lease Receivables

Under the U.S. Program Agreement, the Canadian Rider, and agreements with other syndicators, from time-to-time we may sell customer lease receivables. We do not expect to retain interests in these assets. Gains or losses on the sale of these lease receivables depend in part on the previous carrying amount of the financial assets involved in the transfer. We estimate fair value based on the present value of future expected cash flows using management's best estimates. As these same assumptions are used in recording the lease receivables, and sale of the lease receivables occurs shortly thereafter, management anticipates that in most instances, book value is expected to approximate fair value.

During fiscal 2005 and 2004, we sold $249,083 and $383,381, respectively, of lease receivables for cash proceeds in transactions to GE and other syndicators. In those transactions, we will not retain any interest in the assets. No material gain or loss resulted from these transactions.

20 (In Part): Financial Instruments

Concentration of Credit Risk (In Part)

We are subject to credit risk through trade receivables, lease receivables, and short-term cash investments. Credit risk with respect to trade and lease receivables is minimized because of geographic dispersion of our large customer base. However, at September 30, 2005, we had accounts receivable from GE of $150,047 (including amounts unbilled), which represents a significant concentration of our accounts receivable. Accordingly, if GE were not able to repay the amount owed to us, the impact would have a material adverse effect on our liquidity, financial position, and results of operations.

INTANGIBLE ASSETS

2.125 SFAS No. 142, *Goodwill and Other Intangible Assets*, specifies that goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. In addition, the Standard provides specific guidance on how to determine and measure goodwill impairment. Intangible assets that have finite useful lives will be amortized over their useful lives. *SFAS No. 142* requires additional disclosures including information about carrying amounts of goodwill and other intangible assets, and estimates as to future intangible asset amortization expense.

2.126 Table 2-19 lists those intangible assets, amortized or not, which are most frequently disclosed by the survey companies. Table 2-19 does not include intangible pension assets recognized when an entity records a minimum pension liability in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. In 2005, 165 survey companies disclosed an intangible pension asset.

2.127 Table 2-20 summarizes the amortization periods used by the survey companies to amortize intangible assets that have finite useful lives.

2.128 Examples of intangible asset presentations and disclosures follow.

2.129

TABLE 2-19: INTANGIBLE ASSETS

	Number of Companies			
	2005	2004	2003	2002
Goodwill recognized in a business combination	522	510	506	505
Trademarks, brand names, copyrights	271	260	226	165
Customer lists/ relationships	243	195	157	121
Patents, patent rights	149	151	136	130
Technology	140	125	114	95
Licenses, franchises, memberships	106	101	92	60
Noncompete covenants	87	85	86	76
Contracts, agreements	85	68	60	28
Other—described	79	88	76	99

2.130

TABLE 2-20: AMORTIZATION PERIOD—2005

	Number of Companies					
Intangible Asset	**Exceeding 40 Years**	**31–40 Years**	**21–30 Years**	**11–20 Years**	**10 Years or Less**	**Estimated or Legal Life**
Trademarks, brand names, copyrights	—	10	19	53	56	39
Patents	—	4	6	51	40	48
Customer lists, relationships	—	3	18	70	106	45
Technology	—	3	7	33	69	26
Licenses, franchises	—	2	4	21	21	31
Noncompete covenants	—	1	2	15	49	20
Contracts, agreements	2	1	7	11	35	28

Goodwill

2.131

FOSTER WHEELER LTD. (DEC)

(In thousands)	2005	2004
Total current assets	$ 851,523	$1,039,458
Land, buildings and equipment, net	258,672	280,305
Restricted cash	21,994	72,844
Notes and accounts receivable—long term	5,076	7,053
Investment and advances	168,193	158,324
Goodwill, net	50,982	51,812
Other intangible assets, net	64,066	69,690
Asbestos-related insurance recovery receivable	321,008	332,894
Other assets	98,621	114,605
Deferred income taxes	54,571	50,714
Total assets	$1,894,706	$2,177,699

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Intangible Assets

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), trademarks and patents. Goodwill was allocated to our reporting units based on the original purchase price allocation. Patents and trademarks are being amortized on a straight-line basis over periods of 12 to 40 years.

We test for impairment at the reporting unit level as defined in SFAS No. 142, "Goodwill and Other Intangible Assets." This test is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. In the fourth quarter of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. SFAS No. 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives and reviewed annually for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

As of December 30, 2005 and December 31, 2004, we had unamortized goodwill of $50,982 and $51,812, respectively. The decrease in goodwill of $830 resulted from changes in foreign currency translation rates. All of the goodwill is related to our global power business group. In accordance with SFAS No. 142, effective as of December 29, 2001, we no longer amortize goodwill, and in 2004 and 2005, the fair value of the reporting units exceeded the carrying amounts.

As of December 30, 2005 and December 31, 2004, we had unamortized identifiable intangible assets of $64,066 and $69,690, respectively. The following table details amounts relating to those assets.

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$36,594	$(17,412)	$ 37,392	$(15,622)
Trademarks	61,771	(16,887)	63,026	(15,106)
Total	$98,365	$(34,299)	$100,418	$(30,728)

Amortization expense related to patents and trademarks, which is recorded within cost of operating revenues on the consolidated statement of operations and comprehensive loss, totaled $3,570, $3,650 and $3,675 for fiscal years 2005, 2004 and 2003, respectively. Amortization expense is expected to approximate $3,600 each year in the next five years.

2.132

KELLWOOD COMPANY (JAN)

(In thousands)	2006	2005
Total current assets	$1,042,304	$1,029,914
Property, plant and equipment:		
Land	2,199	2,451
Buildings and improvements	96,642	97,853
Machinery and equipment	113,425	116,292
Capitalized software	52,903	53,780
Total property, plant and equipment	265,169	270,376
Less accumulated depreciation and amortization	(185,432)	(180,776)
Property, plant and equipment, net	79,737	89,600
Intangible assets, net	160,027	181,597
Goodwill	203,831	214,747
Other assets	26,858	36,351
Long-term assets of discontinued operations	889	27,683
Total assets	$1,513,646	$1,579,892

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

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

J) (In Part): Goodwill and Other Intangible Assets

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of identifiable net tangible and identifiable intangible assets acquired. In accordance with the Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill and other indefinite-lived intangible assets are no longer amortized, but are reviewed for impairment at least annually and if a triggering event were to occur in an interim period. Goodwill impairment is determined using a two-step process. The first step of the impairment test is used to identify potential impairment by comparing the fair value of a reporting unit to the book value, including goodwill. If the fair value of a reporting unit exceeds its book value, goodwill of the reporting unit is not considered impaired and the second step of the impairment test is not required. If the book value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the book value of that goodwill. If the book value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The annual impairment testing is performed in the fourth quarter. In 2004 and 2003, no impairment was indicated. This evaluation utilized discounted cash flow analysis and multiple analyses of the historical and forecasted operating results of the Company's reporting units. During the second quarter of 2005, the Company announced a Restructuring Plan (the 2005 Restructuring Plan). As a result of this triggering event, interim impairment testing was deemed necessary and impairment charges were recorded. See Note 5 for more information on SFAS No. 142 and accounting for goodwill as well as the details surrounding the impairment charges. At the end of 2005 no additional impairment was indicated.

Note 5 (In Part): Goodwill and Intangible Assets

Goodwill balances and changes therein since the beginning of 2004 by segment are as follows:

	Women's Sportswear	Men's Sportswear	Other Soft Goods	Total
Balance as of January 31, 2004	$129,117	$ —	$27,166	$156,283
Acquisition of Phat	—	48,060	—	48,060
Gerber realignment reserve reversal	—	—	(953)	(953)
Adjustment to contingent purchase price for 2003	(212)	—	—	(212)
Contingent purchase price for 2004	8,209	3,330	—	11,539
Other	—	—	30	30
Balance as of January 29, 2005	137,114	51,390	26,243	214,747
Impairment charges	(20,045)	—	—	(20,045)
Adjustment to contingent purchase price for 2004	541	97	—	638
Contingent purchase price for 2005	6,487	2,004	—	8,491
Balance as of January 28, 2006	$124,097	$53,491	$26,243	$203,831

In connection with the restructuring activities and pursuant to the Company's policies for assessing impairment of goodwill and long-lived assets, $29,279 and $20,287 of goodwill and intangible assets, respectively, including trademarks and customer lists, were written off during 2005. These write-offs occurred in the second quarter of 2005. Of these amounts, $9,234 and $9,423 of goodwill and intangible assets, respectively, relate to reporting units that are included in discontinued operations as of and for the year ended January 28, 2006. Included in continuing operations is the write-off of $20,045 and $10,864 of goodwill and intangible assets, respectively. The remaining impairment charges of $10,864 for intangible assets and $20,045 for goodwill are discussed in the following paragraph.

Under SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and other indefinite-lived intangible assets are no longer amortized but are reviewed for impairment at least annually and if a triggering event were to occur in an interim period. The Company's annual impairment testing is performed in the fourth quarter. In 2004 and 2003, no impairment was indicated. In 2005, the Restructuring Plan was a triggering event that required impairment testing of certain reporting units' goodwill and intangible asset balances. The impairment resulting from the current test was due to current operating results and expectations regarding future results of the Company's dress business being well below the expectations reflected in the test performed in the fourth quarter of 2004. This business has experienced several years of significant sales decreases resulting from weakness in the retail market for dresses. Expectations reflected in prior period impairment tests were that these market decreases were ending. The reassessment of the Company's businesses performed as part of the 2005 Restructuring Plan during the second quarter of 2005 resulted in the conclusion that the negative trends were likely to continue into the future. The first step of the impairment testing showed that the book value of the dress business in the Women's Sportswear segment, which is not being exited, exceeded its fair value. The second step of the impairment testing showed that the identifiable intangible assets of this business (customer relationships and trademarks) had no fair value, and that the book value of the reporting unit's goodwill exceeded the implied fair value of that goodwill. This evaluation utilized discounted cash flow analyses and multiple analyses of the historical and updated forecasted operating results. As a result, impairment charges of $20,045 and $10,864 for goodwill and intangible assets, including trademarks and customer lists, respectively, of this reporting unit were recorded during the second quarter of 2005.

Trademarks

2.133

CARPENTER TECHNOLOGY CORPORATION (JUN)

(In millions)	2005	2004
Total current assets	$ 731.6	$ 491.8
Property, plant and equipment, net	569.2	608.7
Prepaid pension cost	250.8	247.0
Goodwill	46.4	46.4
Trademarks and trade names, net	21.1	24.3
Other assets	34.3	38.0
Total assets	$1,653.4	$1,456.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Trademarks and Trade Names

The costs of trademarks and trade names are amortized on a straight-line basis over the 30 year estimated useful life of these finite-lived assets.

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable through future undiscounted cash flows. The amount of the impairment loss is the excess of the carrying amount of the impaired assets over the fair value of the assets based upon discounted future cash flows.

7 (In Part): Goodwill and Trademarks and Trade Names, Net

Trademarks and Trade Names, Net

(In millions)	2005	2004
Trademarks and trade names, at cost	$32.0	$32.0
Less tax basis adjustment	(2.1)	—
Less accumulated amortization	(8.8)	(7.7)
Trademarks and trade names, net	$21.1	$24.3

In December 2004, Carpenter resolved an outstanding tax matter related to the Talley acquisition. The settlement resulted in the reversal of a $2.1 million deferred tax liability with a corresponding writedown of the related trademarks and trade names.

Carpenter recorded $1.1 million of amortization expense in fiscal years 2005, 2004 and 2003. The estimated annual amortization expense for each of the succeeding five fiscal years is $1.0 million.

2.134

THE COCA-COLA COMPANY (DEC)

(In millions)	2005	2004
Total current assets	$10,250	$12,281
Investments		
Equity method investments:		
Coca-Cola Enterprises Inc.	1,731	1,569
Coca-Cola Hellenic Bottling Company S.A.	1,039	1,067
Coca-Cola FEMSA, S.A. de C.V.	982	792
Coca-Cola Amatil Limited	748	736
Other, principally bottling companies	2,062	1,733
Cost method investments, principally bottling companies	360	355
Total investments	6,922	6,252
Other assets	2,648	2,981
Property, plant and equipment—net	5,786	6,091
Trademarks with indefinite lives	1,946	2,037
Goodwill	1,047	1,097
Other intangible assets	828	702
Total assets	$29,427	$31,441

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill, Trademarks and Other Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. We do not amortize intangible assets with indefinite lives and goodwill. We test intangible assets with definite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. For intangible assets with indefinite lives and goodwill, we perform tests for impairment at least annually or more frequently if events or circumstances indicate that assets might be impaired. Such tests for impairment are also required for intangible assets and/or goodwill recorded by our equity method investees. All goodwill is assigned to reporting units, which are one level below our operating segments. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each business combination. We perform our impairment tests of goodwill at our reporting unit level. Such impairment tests for goodwill include comparing the fair value of a reporting unit with its carrying value, including goodwill. We record an impairment charge if the carrying value of the asset exceeds its fair value. Fair values are derived using discounted cash flow analyses with a number of scenarios, where applicable, that are weighted based on the probability of different outcomes. When appropriate, we consider the assumptions that we believe hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on the Company's cost of capital rate or location-specific economic factors. In case the fair value is less than the carrying value of the assets, we record an impairment charge to reduce the carrying value of the assets to fair value. These impairment charges are generally recorded in the line item other operating charges or equity income—net in the consolidated statements of income.

Our Company determines the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible assets. Factors we consider when determining useful lives include the contractual term of any agreement, the history of the asset, the Company's long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset and, other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, generally on a straight-line basis, over their useful lives, ranging from 1 to 48 years. Refer to Note 5.

Note 5 (In Part): Goodwill, Trademarks and Other Intangible Assets

The following tables set forth information for intangible assets subject to amortization and for intangible assets not subject to amortization (in millions):

	2005	2004
Amortized intangible assets (various, principally trademarks):		
Gross carrying amount	$ 314	$ 292
Less accumulated amortization	168	128
Amortized intangible assets—net	$ 146	$ 164
Unamortized intangible assets:		
Trademarks[1]	$1,946	$2,037
Goodwill[2]	1,047	1,097
Bottlers' franchise rights[3]	521	374
Other	161	164
Unamortized intangible assets	$3,675	$3,672

[1] The decrease in 2005 was primarily the result of impairment charges of approximately $84 million related to trademarks in the Philippines and the effect of translation adjustments, partially offset by acquisitions of trademarks and brands in 2005 totaling approximately $22 million, none of which were individually significant. Refer to Note 17.

[2] The decrease in 2005 was primarily the result of translation adjustments, partially offset by goodwill recognized in connection with the Bremer acquisition. Refer to Note 19.

[3] The increase in 2005 was primarily related to the Bremer and Sucos Mais acquisitions. Refer to Note 19.

Total amortization expense for intangible assets subject to amortization was approximately $29 million, $35 million and $23 million for the years ended December 31, 2005, 2004 and 2003, respectively.

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In 2005, our Company recorded an impairment charge related to trademarks for beverages sold in the Philippines of approximately $84 million. The Philippines is a component of our East, South Asia and Pacific Rim operating segment. The carrying value of our trademarks in the Philippines, prior to the recording of the impairment charges in 2005, was approximately $268 million. The impairment was the result of our revised outlook of the Philippines, which has been unfavorably impacted by declines in volume and income before income taxes resulting from the continued lack of an affordable package offering and the continued limited availability of these trademark beverages in the marketplace. We determined the amount of this impairment charge by comparing the fair value of the intangible assets to the carrying value. Fair values were derived using discounted cash flow analyses with a number of scenarios that were weighted based on the probability of different outcomes. Because the fair value was less than the carrying value of the assets, we recorded an impairment charge to reduce the carrying value of the assets to fair value. This impairment charge was recorded in the line item other operating charges in the consolidated statement of income.

In 2004, acquisition of intangible assets totaled approximately $89 million. This amount is primarily related to the Company's acquisition of trademarks with indefinite lives in the Latin America operating segment.

Customer Lists/Relationships

2.135

AMETEK, INC. (DEC)

(In thousands)	2005	2004
Total current assets	$ 556,307	$ 461,940
Property, plant and equipment, net	228,450	207,542
Goodwill	785,185	601,007
Other intangibles, net of accumulated amortization	117,948	79,259
Investments and other assets	92,710	70,604
Total assets	$1,780,600	$1,420,352

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Goodwill and Other Intangible Assets

The Company accounts for purchased goodwill and intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* Under SFAS 142, purchased goodwill and other intangible assets with indefinite lives, primarily trademarks and tradenames, are not amortized; rather, they are tested for impairment at least annually.

Intangible assets, other than goodwill, with definite lives will continue to be amortized over their useful lives. Patents are being amortized over useful lives of 5 to 17 years. Customer relationships are being amortized over a period of 15 to 20 years. Miscellaneous other intangible assets are being amortized over a period of 10 to 20 years. The Company periodically evaluates the reasonableness of the useful lives of these intangible assets.

In order to test goodwill and other intangible assets with indefinite lives for impairment under SFAS 142, a determination of the fair value of the Company's reporting units for its goodwill valuation, and its other intangible assets with indefinite lives is required and is based upon, among other things, estimates of future operating performance of the reporting unit being valued. Changes in market conditions, among other factors, may have an impact on these estimates. The Company completed its required annual impairment tests in the fourth quarter of 2005, 2004 and 2003 and determined that the carrying value of goodwill and other intangible assets with indefinite lives was not impaired.

5 (In Part): Goodwill and Other Intangible Assets

Other intangible assets were as follows:

(In thousands)	2005	2004
Definite-lived intangible assets (subject to amortization)		
Patents	$ 64,301	$29,528
Purchased technology	19,194	19,264
Customer lists	33,976	34,695
Other acquired intangibles	26,336	22,591
	143,807	106,078
Accumulated amortization		
Patents	(22,148)	(22,015)
Purchased technology	(19,194)	(19,264)
Customer lists	(5,054)	(3,296)
Other acquired intangibles	(20,026)	(20,926)
	(66,422)	(65,501)
Net intangible assets subject to amortization	77,385	40,577
Indefinite-lived intangible assets (not subject to amortization)		
Trademarks and tradenames	40,563	38,682
	$117,948	$79,259

Amortization expense was $4.5 million, $3.1 million, and $1.2 million for the years ended December 31, 2005, 2004, and 2003, respectively. Amortization expense for each of the next five years is expected to approximate $6.0 million per year.

Patents

2.136

3M COMPANY (DEC)

(In millions)	2005	2004
Total current assets	$ 7,115	$ 8,720
Investments	272	227
Property, plant and equipment	16,127	16,290
Less: accumulated depreciation	(10,534)	(10,579)
Property, plant and equipment—net	5,593	5,711
Goodwill	3,473	2,655
Intangible assets—net	486	277
Prepaid pension and postretirement benefits	2,905	2,591
Other assets	669	527
Total assets	$20,513	$20,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Intangible Assets

Intangible assets include patents, tradenames and other intangible assets acquired from an independent party. Intangible assets with an indefinite life, namely certain tradenames, are not amortized. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from two to 20 years. Indefinite-lived intangible assets are tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. The Company has determined that no material impairments existed as of December 31, 2005. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. Costs related to internally developed intangible assets, such as patents, are expensed as incurred, primarily in "Research, development and related expenses".

Note 3 (In Part): Goodwill and Intangible Assets

Acquired Intangible Assets

The carrying amount and accumulated amortization of acquired intangible assets as of December 31 follow:

(Millions)	2005	2004
Patents	$ 378	$ 330
Other amortizable intangible assets (primarily tradenames and customer related intangibles)	369	162
Non-amortizable intangible assets (tradenames)	60	69
Total gross carrying amount	$ 807	$ 561
Accumulated amortization—patents	(205)	(187)
Accumulated amortization—other	(116)	(97)
Total accumulated amortization	(321)	(284)
Total intangible assets—net	$ 486	$ 277

Amortization expense for acquired intangible assets for the years ended December 31 follows:

(Millions)	2005	2004	2003
Amortization expense	$48	$43	$41

Expected amortization expense for acquired intangible assets recorded as of December 31, 2005 follows:

(Millions)	2006	2007	2008	2009	2010	After 2010
Amortization expense	$50	$44	$42	$40	$40	$210

Technology

2.137

BOSTON SCIENTIFIC CORPORATION (DEC)

(In millions)	2005	2004
Total current assets	$2,631	$3,289
Property, plant and equipment, net	1,011	870
Investments	594	529
Other assets	225	142
Intangible assets		
Goodwill	1,938	1,712
Technology—core, net	1,099	942
Technology—developed, net	209	200
Patents, net	338	339
Other intangible assets, net	151	147
Total intangible assets	3,735	3,340
	$8,196	$8,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Amortization and Impairment of Intangible Assets (In Part)

The Company records intangible assets at historical cost. The Company amortizes its intangible assets using the straight-line method over their estimated useful lives as follows: patents and licenses, 2 to 20 years; definite-lived core and developed technology, 5 to 25 years; other intangible assets, various. The Company reviews intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Conditions that would indicate impairment and trigger a more frequent impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset, or an adverse action or assessment by a regulator. If the carrying value of an asset exceeds its undiscounted cash flows, the Company writes-down the carrying value of the intangible asset to its fair value in the period identified. The Company generally calculates fair value as the present value of estimated future cash flows to be generated by the asset using a risk-adjusted discount rate. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. In addition, the Company reviews its indefinite-lived intangible assets at least annually for impairment and reassesses their classification as indefinite lived assets. To test for impairment, the Company calculates the fair value of its indefinite-lived intangible assets and compares the calculated fair values to the respective carrying values. Impairments of intangible assets are recorded as amortization expense in the consolidated statements of operations.

Note E (In Part): Goodwill and Other Intangible Assets

The gross carrying amount of goodwill and intangible assets and the related accumulated amortization for intangible assets subject to amortization at December 31 are as follows:

	2005		2004	
(In millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets				
Technology—core	$ 829	$ 86	$ 634	$ 48
Technology—developed	453	244	398	198
Patents	547	209	511	172
Other intangible assets	281	130	260	113
	$2,110	$669	$1,803	$531
Unamortizable intangible assets				
Goodwill	$1,938		$1,712	
Technology—core	356		356	
	$2,294		$2,068	

The Company's core technology that is not subject to amortization represents technical processes, intellectual property and/or institutional understanding acquired by the Company that is fundamental to the ongoing operation of the Company's business and has no limit to its useful life. The Company's core technology that is not subject to amortization is primarily comprised of certain purchased stent and balloon technology, which is foundational to the Company's continuing operation within the interventional cardiology market and other markets within interventional medicine. The Company amortizes all other core technology over its estimated useful life.

Estmated amortization expense for each of the five succeeding fiscal years based upon the Company's intangible asset portfolio at December 31, 2005 is as follows:

(In millions)	Estimated Amortization Expense
2006	$135
2007	129
2008	111
2009	104
2010	90

Licenses and Franchises

2.138

MEREDITH CORPORATION (JUN)

(In thousands)	2005	2004
Total current assets	$ 304,495	$ 314,014
Property, plant and equipment		
Land	19,261	19,454
Buildings and improvements	106,112	110,010
Machinery and equipment	256,380	245,535
Leasehold improvements	8,863	8,819
Construction in progress	8,266	9,313
Total property, plant and equipment	398,882	393,131
Less accumulated depreciation	(205,926)	(197,332)
Net property, plant and equipment	192,956	195,799
Subscription acquisition costs	24,722	26,280
Broadcast rights	7,096	5,293
Other assets	58,589	59,270
Intangibles, net	707,068	673,968
Goodwill	196,382	191,303
Total assets	$1,491,308	$1,465,927

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

j. Goodwill and Other Intangible Assets

Meredith adopted Statement of Financial Accounting Standards (SFAS) 142, *Goodwill and Other Intangible Assets*, effective July 1, 2002 (see Note 3). SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized to earnings but be tested for impairment at least annually. The impairment tests are based on a fair-value approach as described in SFAS 142. The estimated fair values of these assets are determined by developing discounted future cash flow analyses. Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. Network affiliation agreements are amortized over the period of time the agreements are expected to remain in place, assuming renewals without material modifications to the original terms and conditions (generally, 25 to 40 years from the original acquistion date). The carrying value of intangible assets with finite lives is evaluated whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets.* The carrying value is not recoverable when the projected undiscounted future cash flows are less than the carrying value. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could result in impairment losses.

Intangible assets with indefinite lives include Federal Communications Commission (FCC) broadcast licenses. These licenses are granted for a finite period of time but are renewable if the Company provides at least an average level of service to its customers and complies with the applicable FCC rules and policies and the Communications Act of 1934. The Company has been successful in every one of its past license renewal requests and has incurred only minimal costs in the process. The Company expects the television broadcasting business to continue into the foreseeable future; therefore, the cash flows from the broadcast licenses are expected to continue indefinitely.

7. Goodwill and Intangibles

Intangible assets and goodwill consist of the following:

	2005			2004		
(In thousands)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
Publishing segment						
Noncompete agreements	$ 2,534	$ (1,652)	$ 882	$ 2,534	$ (1,013)	$ 1,521
Customer lists	1,863	(1,863)	—	1,863	(1,863)	—
Broadcasting segment						
Network affiliation agreements	218,651	(78,452)	140,199	218,651	(73,554)	145,097
Customer lists	91	(34)	57	—	—	—
Total	$223,139	$(82,001)	141,138	$223,048	$(76,430)	146,618
Intangible assets not subject to amortization						
Publishing segment						
Trademarks			48,131			48,131
Broadcasting segment						
FCC licenses			517,799			479,219
Total			565,930			527,350
Intangibles, net			$707,068			$673,968

Amortization expense was $5.6 million in fiscal 2005, $5.5 million in fiscal 2004 and $ 7.3 million in fiscal 2003. Future amortization expense for intangible assets is expected to be as follows: $5.4 million in fiscal 2006, $5.2 million in fiscal 2007, $5.0 million in fiscal 2008, $4.9 million in fiscal 2009 and $4.9 million in fiscal 2010.

The changes in the carrying amount of goodwill are as follows:

(In thousands)	Publishing Group	Broadcasting Group	Total
Balance at June 30, 2003	$110,853	$80,978	$191,831
Reclassified/other	(528)	—	(528)
Balance at June 30, 2004	110,325	80,978	191,303
Acquisitions	—	5,079	5,079
Balance at June 30, 2005	$110,325	$86,057	$196,382

Meredith completed annual impairment reviews of goodwill and intangible assets with indefinite lives as of May 31, 2005, 2004 and 2003. No impairments were recorded as a result of those reviews.

2.139

OXFORD INDUSTRIES, INC. (MAY)

(In thousands)	2005	2004
Total current assets	$393,395	$356,821
Property, plant and equipment, net	65,051	51,826
Goodwill, net	188,563	115,426
Intangible assets, net	234,854	147,333
Other non-current assets, net	24,014	23,411
Total assets	$905,877	$694,817

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets, Net

At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consist of trademarks and trade names, license agreements and customer relationships. The fair values of these intangible assets are estimated based on management's assessment as well as independent third party appraisals in some cases.

Amortization of intangible assets with finite lives, which consist of license agreements, customer relationships and covenants not to compete, is recognized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized, which is up to 15 years for some intangible assets. Intangible assets with finite lives are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying amount may not be recoverable. If expected future undiscounted cash flows from operations are less than their carrying amounts, an asset is determined to be impaired and a loss is recorded for the amount by which the carrying value of the assest exceeds its fair value. During fiscal 2005, 2004 and 2003, no material impairments relating to intangible assets with finite lives was recognized.

Trademarks and other intangible assets with indefinite lives are not amortized but instead evaluated for impairment annually or more frequently if events or circumstances indicate that the intangible asset might be impaired. The evaluation of the recoverability of intangible assets with indefinite lives includes valuations based on a discounted cash flow analysis or an independent appraisal. If this analysis indicates an impairment of an intangible asset with an indefinite useful life, the amount of the impairment is recognized in the consolidated financial statements.

In fiscal 2005, 2004 and 2003, we tested for impairment of trademarks and other intangible assets with indefinite lives on the last day of the first quarter. In fiscal 2005, we also tested for impairment as of the first day of the fourth quarter. No impairment of intangible assets with indefinite useful lives was identified during fiscal 2005, 2004 or 2003. In future years, we intend to test for impairment as of the first day of the fourth quarter primarily due to timing of our annual budgeting process, which is used in estimating future cash flows for the analysis.

Note 5 (In Part): Goodwill and Intangible Assets

Intangible assets by category are summarized below (in thousands):

	2005	2004
Intangible assets with finite lives		
Gross carrying amount		
Trademarks	$ 578	$ 578
License agreements	20,683	8,983
Customer relationships	19,500	16,700
Covenant not to compete	460	460
Subtotal	41,221	26,721
Accumulated amortization		
Trademarks	(578)	(222)
License agreements	(7,941)	(2,907)
Customer relationships	(7,418)	(3,944)
Covenant not to compete	(230)	(115)
Subtotal	(16,167)	(7,188)
Total intangible assets with finite lives, net	25,054	19,533
Unamortized intangible assets		
Trademarks	209,800	127,800
Total intangible assets, net	$234,854	$147,333

Based on the current estimated useful lives assigned to our intangible assets, amortization expense for fiscal 2006, 2007, 2008, 2009, and 2010 is projected to total $7.4 million, $6.1 million, $4.2 million, $2.0 million and $1.6 million.

Covenants Not to Compete

2.140

ROBBINS & MYERS, INC. (AUG)

(In thousands)	2005	2004
Total current assets	$271,708	$264,312
Goodwill	309,281	306,220
Other intangible assets	14,927	15,769
Other assets	13,807	10,070
Property, plant and equipment	130,612	139,707
Total assets	$740,335	$736,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Goodwill and Other Intangible Assets (In Part)

Amortization of other intangible assets is calculated on the straight-line basis using the following lives:

Patents and trademarks	14 to 17 years
Non-compete agreements	3 to 5 years
Financing costs	3 to 5 years

Note 7 (In Part): Goodwill and Other Intangible Assets

Information regarding our other intangible assets is as follows:

	2005			2004		
(In thousands)	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Patents and trademarks	$ 9,678	$ 6,027	$ 3,651	$ 8,921	$ 5,492	$ 3,429
Non-compete agreements	8,800	5,739	3,061	8,750	5,327	3,423
Financing costs	8,855	6,495	2,360	8,592	5,629	2,963
Pension intangible	5,148	0	5,148	4,643	0	4,643
Other	5,939	5,232	707	6,131	4,820	1,311
	$38,420	$23,493	$14,927	$37,037	$21,268	$15,769

We estimate that amortization expense will be approximately $2,500,000 for each of the next five years.

Contracts

2.141

NACCO INDUSTRIES, INC. (DEC)

(In millions)	2005	2004
Total current assets	$1,073.7	$ 996.8
Property, plant and equipment, net	399.4	415.8
Goodwill	434.2	437.0
Coal supply agreements and other intangibles, net	75.9	79.3
Other non-current assets	110.8	109.7
Total assets	$2,094.0	$2,038.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions)

Note 2 (In Part): Significant Accounting Policies

Coal Supply Agreements and Other Intangibles, Net

The coal supply agreements represent long-term supply agreements with customers, and are recorded based on the fair value at the date of acquisition. These intangible assets are being amortized based on units of production over the lives of the applicable coal supply agreements, which are from ten to 30 years. The Company's other intangible assets consist primarily of customer relationship intangibles and are being amortized over their estimated useful lives, which range from 12 to 30 years. The Company reviews identified intangible assets for impairment whenever changes in circumstances or the occurrence of certain events indicate potential impairment.

Note 8 (In Part): Intangible Assets

Intangible assets other than goodwill, which are subject to amortization, consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance at December 31, 2005			
Coal supply agreements	$85.8	$(11.9)	$73.9
Other intangibles	3.3	(1.3)	2.0
	$89.1	$(13.2)	$75.9
Balance at December 31, 2004			
Coal supply agreements	$85.8	$ (9.0)	$76.8
Other intangibles	4.0	(1.5)	2.5
	$89.8	$(10.5)	$79.3

Amortization expense for intangible assets was $3.2 million, $3.3 million and $3.6 million in 2005, 2004 and 2003, respectively. Expected annual amortization expense of other intangible assets for the next five years is as follows: $3.3 million in 2006, $3.3 million in 2007, $3.0 million in 2008, $3.2 million in 2009 and $3.1 million in 2010. The weighted-average amortization period for the coal supply agreements is 30 years and the weighted-average amortization period for other intangible assets is 18 years.

OTHER NONCURRENT ASSETS

2.142 Table 2-21 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheet of the survey companies. Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented under "Lessor Leases" in the "Long-Term Leases" section.

2.143

TABLE 2-21: OTHER NONCURRENT ASSETS

	Number of Companies			
	2005	2004	2003	2002
Deferred income taxes	243	237	212	195
Prepaid pension costs	193	151	147	146
Software	118	132	124	128
Debt issue costs	89	69	57	64
Segregated cash or securities	73	75	61	69
Derivatives	68	88	54	61
Property held for sale	47	52	49	43
Cash surrender value of life insurance	35	40	31	33
Contracts	12	16	8	13
Assets leased to others	11	12	11	16
Estimated insurance recoveries	11	7	8	9
Assets of nonhomogeneous operations	8	7	3	6
Other identified noncurrent assets	62	66	53	59

Deferred Income Taxes

2.144

ARMSTRONG HOLDINGS, INC. (DEC)

(In millions)	2005	2004
Total current assets	$1,561.3	$1,482.2
Property, plant and equipment less accumulated depreciation and amortization of $1,562.0 and $1,540.7, respectively	1,145.3	1,208.8
Insurance receivable for asbestos-related liabilities, noncurrent	88.8	88.8
Prepaid pension costs	476.9	480.9
Investment in affiliates	67.4	72.5
Goodwill	134.2	136.0
Other intangibles, net	68.1	76.0
Deferred income taxes, noncurrent	967.4	941.6
Other noncurrent assets	96.6	122.6
Total assets	$4,606.0	$4,609.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

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

Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Note 14 (In Part): Income Taxes

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets including, specifically, the asbestos-related liability differences which will be realized subsequent to emergence from Chapter 11 as a U.S. net operating loss that may be carried forward for 20 years.

We have provided valuation allowances for certain state and foreign net operating loss carryforwards and other basis adjustments of $268.7 million. We have $513.6 million of state net operating loss carryforwards with expirations between 2006 and 2025, and $327.2 million of foreign net operating loss carryforwards, which are available for carryforward indefinitely. The net increase in valuation allowance from 2004 is primarily attributable to an increase for capital losses and certain non-U.S. operating losses generated in 2005, including additional needs to cover deferred tax liabilities with indefinite lives, offset by $4.6 million of losses utilized for state tax purposes.

Deferred income tax assets (liabilities)	2005	2004
Postretirement and postemployment benefits	$ 108.9	$ 116.0
Chapter 11 reorganization costs and restructuring costs	40.9	21.5
Asbestos-related liabilities	1,262.7	1,352.7
Pension assets	33.9	38.6
Net operating losses	134.3	139.0
Capital losses	10.6	—
Other	87.2	36.2
Total deferred tax assets	1,678.5	1,704.0
Valuation allowance	(268.7)	(265.5)
Net deferred tax assets	1,409.8	1,438.5
Accumulated depreciation	(190.9)	(199.1)
Pension credit	(184.7)	(182.6)
Insurance for asbestos-related liabilities	(39.0)	(38.3)
Tax on unremitted earnings	(1.9)	(28.8)
Other	(32.5)	(52.8)
Total deferred income tax liabilities	(449.0)	(501.6)
Net deferred income tax assets	$ 960.8	$ 936.9
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset—current	$ 15.4	$ 15.6
Deferred income tax asset—non-current	967.4	941.6
Deferred income tax liability—current	(0.8)	(1.1)
Deferred income tax liability—non-current	(21.2)	(19.2)
Net deferred income tax assets	$ 960.8	$ 936.9

At December 31, 2005, unremitted earnings of subsidiaries outside the U.S. were $106.5 million. We expect to repatriate $7.3 million for which $1.9 million of U.S. taxes were provided in 2005. No U.S. taxes have been provided on the remaining unremitted earnings as our intention is to invest these earnings permanently. If such earnings were to be remitted, approximately $8.2 million in net taxes would be payable including $3.6 million of non-U.S. withholding taxes.

In October 2004, the American Jobs Creations Act of 2004 (the "AJCA") was signed into law. The AJCA provides for a one-time tax deduction of 85% of certain foreign earnings that were repatriated in 2005. During 2005, the Company repatriated foreign earnings eligible for this deduction and recorded a net tax benefit of $0.4 million as a result of the reversal of deferred taxes previously provided on these earnings.

2.145

CABLEVISION SYSTEMS CORPORATION (DEC)

(In thousands)	2005	2004
Total current assets	$2,130,502	$ 2,381,833
Property, plant and equipment, net of accumulated depreciation of $5,494,994 and $4,676,327	3,868,077	4,013,814
Investments in affiliates	39,463	27,300
Investment securities pledged as collateral	199,430	819,441
Notes and other receivables	42,987	46,892
Derivative contracts	109,207	290,686
Other assets	83,801	72,230
Deferred tax asset	47,269	17,049
Long-term feature film inventory, net	378,502	350,472
Deferred carriage fees, net	188,135	108,233
Franchises	731,848	731,848
Affiliation, broadcast and other agreements, net of accumulated amortization of $349,752 and $348,375	519,363	485,118
Other intangible assets, net of accumulated amortization of $68,192 and $50,417	388,622	168,933
Excess costs over fair value of net assets acquired	996,338	1,446,294
Deferred financing and other costs, net of accumulated amortization of $85,450 and $64,307	120,965	132,225
Assets held for sale	—	312,154
	$9,844,509	$11,404,522

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

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

Income Taxes

Income taxes are provided based upon the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires the asset and liability method of accounting for deferred income taxes and permits the recognition of deferred tax assets, subject to an ongoing assessment of realizability.

Note 12 (In Part): Income Taxes

The tax effects of temporary differences which give rise to significant portions of deferred tax assets or liabilities and the corresponding valuation allowance at December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax asset (liability)		
Current		
Benefits of tax loss carry forwards	$ 137,034	$ —
Benefit plans	7,598	26,354
Allowance for doubtful accounts	3,878	5,911
Reserve for restructuring	3,833	15,962
Other assets	1,671	19,159
Other liabilities	71,680	60,883
Deferred tax asset	225,694	128,269
Valuation allowance	(6,423)	(3,741)
Net deferred tax asset, current	219,271	124,528
Investments	(208,388)	—
Deferred tax liability, current	(208,388)	—
Net deferred tax asset, current	10,883	124,528
Noncurrent		
Benefits of tax loss carry forwards	1,161,860	1,274,601
Benefit plans	63,319	32,473
Other	8,472	5,568
Deferred tax asset	1,233,651	1,312,642
Valuation allowance	(35,107)	(38,283)
Net deferred tax asset, noncurrent	1,198,544	1,274,359
Fixed assets and intangibles	(517,201)	(537,807)
Investments	(73,718)	(383,390)
Partnership investments	(557,571)	(336,113)
Other assets	(2,785)	—
Deferred tax liability, noncurrent	(1,151,275)	(1,257,310)
Net deferred tax asset, noncurrent	47,269	17,049
Total net deferred tax asset	$ 58,152	$ 141,577

Deferred tax assets have resulted primarily from the Company's future deductible temporary differences and net operating loss carry forwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's ability to realize its deferred tax assets depends upon the generation of sufficient future taxable income to allow for the utilization of its net operating loss carry forwards and deductible temporary differences and tax planning strategies. If such estimates and related assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets resulting in additional income tax expense in the Company's consolidated statement of operations. Management evaluates the realizability of the deferred tax assets and the need for additional valuation allowances quarterly. At this time, based on current facts and circumstances, management believes that it is more likely than not that the Company will realize benefit for its gross deferred tax assets, except those deferred tax assets against which a valuation allowance has been recorded. In 2005, 2004 and 2003, the Company recorded increases in the valuation allowance of $6,459, $14,036 and $27,988, respectively, relating to certain state net operating loss carry forwards. During 2005, certain state net operating loss carry forwards expired prior to utilization. The deferred tax asset corresponding to the expired net operating loss carry forwards had been fully offset by a valuation allowance. The deferred tax asset and valuation allowance were both reduced by $6,953.

Prepaid Pension Cost

2.146

ALLEGHENY TECHNOLOGIES INCORPORATED (DEC)

(In millions)	2005	2004
Total current assets	$1,484.0	$1,160.2
Property, plant and equipment, net	704.9	718.3
Cost in excess of net assets acquired	199.7	205.3
Deferred income taxes	155.3	53.0
Deferred pension asset	100.6	122.3
Other assets	87.1	56.6
Total assets	$2,731.6	$2,315.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Pension Plans and Other Postretirement Benefits

The Company has defined benefits pension plans and defined contribution plans covering substantially all employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, the Company maintains the right to amend or terminate the plans at its discretion.

A reconciliation of funded status for the Company's pension and postretirement benefit plans at December 31, 2005 and 2004 was as follows:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	$2,120.8	$2,018.6	$ 594.9	$ 881.6
Service cost	27.9	27.1	3.1	5.1
Interest cost	125.1	126.6	31.6	45.5
Benefits paid	(166.2)	(166.4)	(50.3)	(46.0)
Participant contributions	0.8	0.8	—	—
Acquisition	—	—	—	18.6
Effect of currency rates	(4.0)	4.6	—	—
Plan amendments	—	4.2	(5.8)	(264.0)
Net actuarial (gains) losses—discount rate change	46.5	81.4	8.9	19.5
—other	83.8	23.9	(22.6)	(32.2)
Effect of curtailment and special termination benefits	—	—	—	(33.2)
Benefit obligation at end of year	$2,234.7	$2,120.8	$ 559.8	$ 594.9
Change in plan assets				
Fair value of plan assets at beginning of year	$1,849.1	$1,762.1	$ 100.2	$ 107.0
Actual returns on plan assets and plan expenses	171.4	193.9	10.2	11.4
Employer contributions	101.4	51.4	—	—
Participant contributions	0.8	0.8	—	—
Effect of currency rates	(4.0)	3.9	—	—
Benefits paid	(162.5)	(163.0)	(24.7)	(18.2)
Fair value of plan assets at end of year	$1,956.2	$1,849.1	$ 85.7	$ 100.2
Underfunded status of the plan	$ (278.5)	$ (271.7)	$(474.1)	$(494.7)
Unrecognized net actuarial loss	683.4	614.4	217.0	247.1
Net minimum pension liability	(648.6)	(587.3)	—	—
Unrecognized prior service cost	100.6	122.3	(204.4)	(225.1)
Accrued benefit cost	$ (143.1)	$ (122.3)	$(461.5)	$(472.7)

Amounts recognized in the balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	2005	2004	2005	2004
Prepaid pension cost	$ 2.9	$ —	$ —	$ —
Deferred pension asset	100.6	122.3	—	—
Pension liabilities	(246.6)	(244.6)	—	—
Accrued postretirement benefits	—	—	(461.5)	(472.7)
Net amount recognized	$(143.1)	$(122.3)	$(461.5)	$(472.7)

The accumulated benefit obligation for all defined pension plans was $2,200.4 million and $2,093.6 million at December 31, 2005 and 2004, respectively.

The annual measurement date for the Company's retirement benefits is November 30. At November 30, 2005, the value of the accumulated pension benefit obligation (ABO) exceeded the value of pension assets by approximately $247 million. A minimum pension liability was recognized in 2002 as a result of a severe decline in the equity markets from 2000 through 2002, higher benefit liabilities from long-term labor contracts negotiated in 2001, and a lower assumed discount rate for valuing liabilities. Accounting standards require a minimum pension liability to be recorded and the pension asset recorded on the balance sheet to be written off if the value of pension assets is less than the ABO at the annual measurement date. Accordingly, in the 2002 fourth quarter, the Company recorded a charge against stockholders' equity of $406 million, net of deferred taxes, to write off the prepaid pension cost representing the previous overfunded position of the pension plan, and to record a deferred pension asset ($101 million at December 31, 2005) for unamortized prior service cost relating to prior benefit enhancements. In the fourth quarter of 2005, 2004 and 2003, the Company's adjustment of the minimum pension liability resulted in an increase (decrease) to stockholders' equity of $(36) million for 2005, $2 million for 2004 and $47 million for 2003, presented as other comprehensive income (loss). These charges and adjustments did not affect the Company's results of operations and do not have a cash impact. In addition, they do not affect compliance with debt covenants in the Company's bank credit agreement. In accordance with accounting standards, the charge against stockholders' equity would be reversed in subsequent years if the value of pension plan investments returns to a level that exceeds the ABO as of a future annual measurement date.

2.147

R.R. DONNELLEY & SONS COMPANY (DEC)

(In millions)	2005	2004
Total current assets	$2,621.7	$2,600.6
Property, plant and equipment—net	2,138.6	1,924.5
Goodwill	2,750.7	2,472.7
Other intangible assets—net	1,094.3	666.1
Prepaid pension cost (Note 11)	514.1	498.3
Other noncurrent assets	254.3	288.7
Assets of discontinued operations	—	102.8
Total assets	$9,373.7	$8,553.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Pension and Postretirement Plans

The Company records annual amounts relating to its pension and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications is generally recorded or amortized over future periods. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors.

Note 11 (In Part): Retirement Plans

The Company sponsors various funded and unfunded pension plans for most of its full-time employees in the United States, Canada and certain international locations. Benefits are generally based upon years of service and compensation. These plans are funded in conformity with the applicable government regulations. The United States pension plan of Moore Wallace acquired in the acquisition did not accrue benefits as the plan was frozen prior to the acquisition and continued with no further benefit accruals until January 1, 2005 when benefit accruals commenced again.

In addition to pension benefits, the Company provides certain healthcare and life insurance benefits for retired employees. Most of the Company's regular full-time U.S. employees become eligible for these benefits at or after reaching age 55 if working for the Company and having 10 years of continuous service. For employees who began employment with the Company prior to January 1, 2002, the Company subsidizes coverage and funds liabilities associated with these plans through a tax-exempt trust. The assets of the trust are invested in trust owned life insurance policies covering certain employees of the Company. The underlying assets of the policies are invested primarily in marketable equity, corporate fixed income and government securities. The Moore Wallace postretirement plan acquired in the acquisition provides postretirement health care and life insurance benefits to certain grandfathered United States employees and to all eligible Canadian employees.

The pension and postretirement obligations are measured as of September 30 for all years presented and are calculated using generally accepted actuarial methods. Actuarial gains and losses are amortized using the corridor method over the average remaining service life of its active employees.

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The following provides a reconciliation of the benefit obligation, plan assets and the funded status of the pension and postretirement plans as of December 31, 2005 and 2004:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Benefit obligation at beginning of year	$2,232.3	$1,824.1	$ 531.1	$ 328.5
Service cost	76.6	61.0	11.4	16.1
Interest cost	129.9	126.8	30.6	33.6
Plan participants' contributions	1.3	1.2	15.1	11.4
Acquisitions	14.5	450.5	—	312.0
Amendments	0.5	(147.6)	—	(109.9)
Actuarial loss (gain)	59.8	25.5	14.1	(6.1)
Curtailments and settlements	0.2	—	—	(1.5)
Foreign currency translation	(14.2)	35.7	0.9	1.9
Adjustment to conform measurement date [2]	—	(3.2)	—	(1.2)
Benefits paid	(130.6)	(141.7)	(61.6)	(53.7)
Benefit obligation at end of year[1]	$2,370.3	$2,232.3	$ 541.6	$ 531.1
Fair value of plan assets at beginning of year	$2,482.4	$1,731.1	$ 219.5	$ 213.1
Actual return on assets	388.4	313.6	29.9	37.1
Acquisitions	9.8	530.8	—	—
Employer contributions	18.2	25.9	17.8	11.6
Plan participants' contributions	1.3	1.2	15.1	11.4
Foreign currency translation	(13.4)	27.3	—	—
Adjustment to conform measurement date[2]	—	(5.8)	—	—
Benefits paid	(130.6)	(141.7)	(61.6)	(53.7)
Fair value of plan assets at end of year	2,756.1	2,482.4	220.7	219.5
Funded status	385.8	250.1	(320.9)	(311.6)
Unrecognized transition obligation	—	(10.2)	—	—
Unrecognized net actuarial loss	131.9	278.9	88.7	90.0
Unrecognized prior service cost (benefit)	(106.9)	(114.4)	(101.7)	(118.8)
Fourth quarter contribution	7.6	9.7	3.3	3.5
Net asset (liability) recognized on the consolidated balance sheet	$ 418.4	$ 414.1	$(330.6)	$(336.9)
Amounts recognized on the consolidated balance sheets consist of:				
Prepaid benefit cost	$ 514.1	$ 498.3	$ —	$ —
Accrued benefit cost (included in Other noncurrent liabilities)	(137.1)	(130.6)	—	—
Postretirement liability	—	—	(330.6)	(336.9)
Intangible asset	1.4	1.0	—	—
Deferred income taxes	16.3	18.2	—	—
Accumulated other comprehensive income	23.7	27.2	—	—
Net asset (liability) recognized on the consolidated balance sheet	$ 418.4	$ 414.1	$(330.6)	$(336.9)

[1] The accumulated benefit obligation for all defined benefit pension plans was $2,328.8 million and $2,206.9 million at September 30, 2005 and 2004, respectively.

[2] Adjustment to conform the measurement dates in the benefit plans acquired in the Moore Wallace acquisition to the Company's September 30 measurement date.

Software Development Costs

2.148

BECTON, DICKINSON AND COMPANY (SEP)

(In thousands)	2005	2004
Total current assets	$2,975,314	$2,641,334
Property, plant and equipment, net	1,933,718	1,880,997
Goodwill	470,049	473,211
Core and developed technology, net	165,381	188,541
Other intangibles, net	101,558	93,466
Capitalized software, net	229,793	283,918
Other	196,156	191,112
Total assets	$6,071,969	$5,752,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Capitalized Software

Capitalized software, including costs capitalized in accordance with the AICPA's Statement of Position 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," is stated at cost, less accumulated amortization. Amortization expense is principally provided on the straight-line basis over estimated useful lives, which do not exceed 10 years. Amortization expense was $71,416, $66,319 and $52,602 for 2005, 2004 and 2003, respectively.

2.149

BMC SOFTWARE, INC. (MAR)

(In millions)	2004	2005
Total current assets	$1,436.4	$1,440.4
Property and equipment, net	396.0	383.7
Software development costs and related assets, net	138.9	126.1
Long-term marketable securities	304.1	354.3
Long-term trade finance receivables, net	158.7	126.1
Acquired technology, net	80.3	65.9
Goodwill	383.6	559.7
Intangible assets, net	56.2	62.3
Other long-term assets	90.6	179.8
	$3,044.8	$3,298.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

f) (In Part): Long-Lived Assets

Software Development Costs

Costs of internally developed software are expensed until the technological feasibility of the software product has been established. Thereafter, software development costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. The capitalized software costs are amortized over the products' estimated economic lives, which are typically three years, beginning when the underlying products are available for general release to customers. Each quarter, the Company analyzes the realizability of its recorded software assets under the provisions of SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The amortization of capitalized software development costs, including amounts accelerated for products that were not expected to generate sufficient future revenues to realize their carrying values, is included in cost of license revenues in the consolidated statements of operations and comprehensive income (loss). The following table summarizes the amounts capitalized and amortized during the years ended March 31, 2003, 2004 and 2005.

(In millions)	2003	2004	2005
Software development costs capitalized	$ (88.2)	$(53.3)	$(61.7)
Total amortization	107.6	107.5	74.9
Net impact on operating expenses	$ 19.4	$ 54.2	$ 13.2
Accelerated amortization included in total amortization above	$ 47.4	$ 19.1	$ 2.8

The Company reviewed its product portfolio during the years ended March 31, 2002 and 2003 and discontinued certain products. To the extent that there were any capitalized software development costs remaining on the balance sheet related to these products, the Company accelerated the amortization to write off these balances. The continued need to accelerate amortization to maintain the Company's capitalized software costs at net realizable value, the results of the valuation performed for the Remedy acquisition that indicated a three-year life was appropriate for that acquired technology and changes in the average life cycles for certain of our software products caused the Company to evaluate the estimated economic lives for its internally developed software products. As a result of this evaluation, the Company revised the estimated economic lives of certain products as of January 1, 2003, such that most products at that date would be amortized over an estimated life of three years. These changes in estimated economic lives resulted in an additional $12.4 million and $36.8 million of amortization expense in the years ended March 31, 2003 and 2004, respectively, and reduced basic and diluted earnings per share for the years ended March 31, 2003 and 2004 by $0.03 per share and $0.14 per share, respectively.

Debt Issue Costs

2.150

BLOUNT INTERNATIONAL, INC. (DEC)

(In thousands)	2005	2004
Total current assets	$226,605	$209,336
Property, plant and equipment, net	101,538	97,929
Goodwill	76,891	76,891
Deferred financing costs	17,603	23,883
Deferred income taxes	12,233	
Othere assets	20,322	16,703
Total assets	$455,192	$424,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Deferred Financing Costs

The Company capitalizes costs incurred in connection with borrowings or establishment of credit facilities. These costs are amortized as an adjustment to interest expense over the life of the borrowing or life of the credit facility using the interest method. In the case of early debt principal repayments, the Company adjusts the value of the corresponding deferred financing costs with a charge to other expense, and similarly adjusts the future amortization expense.

Note 4. Deferred Financing Costs

Deferred financing costs represent costs incurred in conjunction with the Company's debt refinacing activities and are amortized over the term of the related debt instruments. Deferred financing costs, and the related amortization expense, are adjusted when any prepayments of principal are made to the related outstanding debt. During the year ended December 31, 2005, the following occurred:

(In thousands)	
Balance at December 31, 2004	$23,883
Financing costs deferred	173
Write off during period due to prepayments of principal	(2,994)
Amortization during period	(3,459)
Balance at December 31, 2005	$17,603

Scheduled amortization for future years, assuming no further prepayments of principal, is as follows:

(In thousands)	Estimated Annual Amortization
2006	$ 3,161
2007	3,305
2008	3,460
2009	3,328
2010 and beyond	4,349
Total amortization	$17,603

Segregated Funds

2.151

AUTOMATIC DATA PROCESSING, INC. (JUN)

(In millions)	2005	2004
Total current assets	$ 4,441.1	$ 2,761.6
Long-term marketable securities	447.9	963.5
Long-term receivables, net	186.9	196.8
Property, plant and equipment, net	684.8	642.4
Other assets	813.9	720.9
Goodwill	2,408.5	2,195.5
Intangible assets, net	734.8	736.3
Total assets before funds held for clients	9,717.9	8,217.0
Funds held for clients	17,897.5	12,903.6
Total assets	$27,615.4	$21,120.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

E. Corporate Investments and Funds Held for Clients

All of the Company's marketable securities are considered to be "trading" or "available-for-sale" and, accordingly, are carried on the Consolidated Balance Sheets at fair value. The Company's trading securities represent securities that have been either pledged as collateral to exchanges and clearinghouses or segregated for the exclusive benefit of our Securities Clearing and Outsourcing Services' customers to meet regulatory requirements. Unrealized gains and losses on these trading securities are reflected in revenues, other than interest on funds held for Employer Services' clients and PEO revenues on the Statements of Consolidated Earnings. For available-for-sale securities, unrealized gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss), on the Consolidated Balance Sheets, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis and are included in other income, net.

If the market value of any available-for-sale security declines below cost and it is deemed to be other-than-temporary, an impairment charge is recorded to earnings for the difference between the carrying amount of the respective security and the fair value.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

Note 4 (In Part): Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients at June 30, 2005 and 2004 are as follows:

	2005				2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Type of issue								
Money market securities and other cash equivalents	$ 6,810.4	$ —	$ —	$ 6,810.4	$ 2,903.3	$ —	$ —	$ 2,903.3
Trading securities								
U.S. Treasury and direct obligations of U.S. government agencies	204.7	—	—	204.7	—	—	—	—
Available-for-sale securities								
U.S. Treasury and direct obligations of U.S. government agencies	6,573.3	48.2	(30.3)	6,591.2	5,449.7	65.0	(29.1)	5,485.6
Asset backed securities	1,815.2	8.6	(11.3)	1,812.5	2,570.4	22.1	(11.9)	2,580.6
Corporate bonds	2,684.8	8.7	(15.3)	2,678.2	2,342.0	15.1	(16.1)	2,341.0
Canadian government obligations and Canadian government agency obligations	894.3	20.5	(0.3)	914.5	765.9	11.9	(2.9)	774.9
Other debt securities	999.5	8.5	(3.8)	1,004.2	899.2	7.1	(5.7)	900.6
Other equity securities	1.5	—	(0.6)	0.9	5.7	4.4	—	10.1
Total available-for-sale securities	12,968.6	94.5	(61.6)	13,001.5	12,032.9	125.6	(65.7)	$12,092.8
Total corporate investments and funds held for clients	$19,983.7	$94.5	$(61.6)	$20,016.6	$14,936.2	$125.6	$(65.7)	$14,996.1

Classification of investments on the Consolidated Balance Sheets are as follows:

	2005	2004
Corporate investments		
Cash and cash equivalents	$ 975.4	$ 713.0
Short-term marketable securities	695.8	416.0
Long-term marketable securities	447.9	963.5
Total corporate investments	2,119.1	2,092.5
Funds held for clients	17,897.5	12,903.6
Total corporate investments and funds held for clients	$20,016.6	$14,996.1

The Company's trading securities include $27.9 million that have been pledged as collateral to exchanges and clearinghouses. These investments can not be pledged or sold by the exchanges or clearinghouses. Additionally, $176.8 million of trading securities have been segregated for the exclusive benefit of our Securities Clearing and Outsourcing Services' customers to meet regulatory requirements.

Note 11. Funds Held for Clients and Client Funds Obligations

As part of its integrated payroll and payroll tax filing services, the Company impounds funds for federal, state and local employment taxes from approximately 401,000 clients; handles regulatory payroll tax filings, correspondence, amendments, and penalty and interest disputes; remits the funds to the appropriate tax agencies; and handles other employer-related services. In addition to fees paid by clients for these services, the Company receives interest during the interval between the receipt and disbursement of these funds by investing the funds primarily in fixed-income instruments. The amount of collected but not yet remitted funds for the Company's payroll and payroll tax filing and other services varies significantly during the fiscal year, and averaged approximately $12,263.9 million $11,086.8 million and $8,936.8 million in fiscal 2005, 2004 and 2003, respectively.

Derivatives

2.152

THE EASTERN COMPANY (DEC)

	2005	2004
Total current assets	$ 45,045,156	$ 40,424,441
Property, plant and equipment		
Land	702,633	702,416
Buildings	11,802,519	11,856,933
Machinery and equipment	29,963,621	29,471,908
Accumulated depreciation	(20,072,087)	(18,124,710)
	22,396,686	23,906,547
Other assets		
Goodwill	10,641,532	10,604,286
Trademarks	103,498	174,527
Patents, technology, and licenses, less accumulated amortization of $1,260,242 in 2005 and $1,824,348 in 2004	1,946,502	1,743,266
Interest rate swap asset	32,081	—
Intangible pension asset	732,554	870,064
Prepaid pension cost	723,826	348,634
	14,179,993	13,740,777
Total assets	$ 81,621,835	$ 78,071,765

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting Policies

Derivatives

The Company entered into an interest rate swap agreement to minimize the risk of fluctuations of interest rates on the Company's variable rate term debt. The agreement involves the exchange of amounts based on the London Interbank Offered Rate ("LIBOR") for amounts based on a fixed interest rate over the life of the agreement, without an exchange of the notional amount upon which the payments are based.

The Company's interest rate swap agreement, which is accounted for as a cashflow hedge, is considered "effective" through use of the short-cut method, as defined under Financial Accounting Standards Boards ("FASB") Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and, as a result, changes in the fair value of the derivative are recorded as an asset or liability with the offset amount recorded to accumulated other comprehensive income (loss) in shareholders' equity.

4 (In Part): Debt

On August 11, 2005, the Company entered into an interest rate swap contract with the lender with an original notional amount of $11,793,750 (notional amount $11,268,750 on December 31, 2005), which was equal to 75% of the outstanding balance of the Term Loan on that date. The notional amount began to decrease on a quarterly basis beginning October 3, 2005 following the principal repayment schedule of the term portion of the Loan Agreement. The Company has a fixed interest rate of 4.61% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 4.61% and will receive interest when the LIBOR rate exceeds 4.61%.

The interest rates on the term and the revolving credit portions of the Loan Agreement may vary. The interest rates may vary based on the LIBOR rate plus a margin spread of 1.5% to 2.0% for the term portion and 1.25% to 1.75% for the revolving credit portion. The margin rate spread is based on operating results calculated on a rolling-four-quarter basis. On December 31, 2005, the interest rate on the term portion of the Loan Agreement was 5.65%.

Previously, the Company maintained an interest rate swap contract, as required, with the lender for an original notional amount of $15,000,000 (notional amount $6,600,000 on January 1, 2005), which was reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement. The interest rate on the swap contract was at a fixed rate of 9.095% and expired on July 1, 2005.

10. Financial Instruments

The carrying amounts of financial instruments (cash and cash equivalents, accounts receivable, accounts payable, the interest rate swap agreement, and debt) as of December 31, 2005 and January 1, 2005, approximate fair value. Fair value was based on expected cash flows and current market conditions.

Property Held for Sale

2.153

QUANEX CORPORATION (OCT)

(In thousands)	2005	2004
Total current assets	$ 357,793	$356,955
Property, plant and equipment, net	423,942	345,193
Goodwill	196,341	121,174
Cash surrender value insurance policies, net	24,927	24,439
Intangible assets, net	82,360	27,556
Other assets	9,002	9,207
Assets of discontinued operations	5,846	45,619
Total assets	$1,100,211	$930,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Critical Accounting Policies

Discontinued Operations

The Company presents the results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for "held for sale accounting" as discontinued operations. At the time an operation qualifies for held for sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held for sale accounting. Management judgment is required to (1) assess the criteria required to meet held for sale accounting, and (2) estimate fair value. Changes to the operation could cause it to no longer qualify for held for sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

19. Discontinued Operations

In accordance with SFAS No. 144, "Accounting *for the Impairment or Disposal of Long-Lived Assets*," the results of operations, financial position and cash flows of Temroc, Piper Impact and Nichols Aluminum Golden have been reflected in the consolidated financial statements and notes as a discontinued operation for all periods presented. Nichols Aluminum—Golden was sold on September 30, 2004, while the Piper Impact business was sold on January 25, 2005.

The Company classified Temroc as held for sale during the fourth quarter of fiscal year 2005. Historically, Temroc had been reported in the Vehicular Products segment. The August 31, 2005 annual impairment test revealed that the carrying value of the Company's Temroc business exceeded its fair value and resulted in an $11.4 million impairment loss of Temroc's goodwill. The Company primarily used the present value of future cash flows to determine the fair value and validated the result against the market approach. The fiscal 2005 impairment loss resulted mostly due to a change in management's expectations of projected cash flows, but was also impacted by an increase in the discount rate. The projected cash flows used in the 2005 evaluation reflected lower margin business from a change in the overall product mix. Later in the fourth quarter of fiscal 2005, Temroc met the held for sale criteria. Accordingly, an additional impairment loss of $1.7 million was recorded to write-down Temroc to its fair value less cost to sell as of October 31, 2005. The Company signed a Letter of Intent for Temroc from a potential buyer and is currently in the process of negotiating a definitive agreement. The Company believes Temroc will be sold within one year. Considering both the annual impairment testing and the classification of Temroc as held for sale, the Company recorded a total Temroc loss of $13.1 million during the fourth quarter of 2005.

Comparative balance sheets of the discontinued operations were as follows:

(In thousands)	2005	2004
Current assets		
Accounts and notes receivable, net	$ 3,408	$ 6,424
Inventories	2,078	5,068
Income tax receivable	—	3,828
Other current assets	18	748
Total current assets	5,504	16,068
Property, plant and equipment, net	5,247	16,581
Other assets	599	29,038
Total assets	$11,350	$61,687
Current liabilities		
Accounts payable	$ 2,591	$ 4,059
Accrued liabilities	750	2,471
Other current liabilities	867	990
Total current liabilities	4,208	7,520
Other liabilities	2,120	2,829
Total liabilities	$ 6,328	$10,349

Operating results of the discontinued operations were as follows:

(In thousands)	2005	2004	2003
Net sales	$ 27,871	$136,107	$152,967
Income (loss) from discontinued operations	(16,602)	1,846	(1,245)
Loss on sale of discontinued operations	(6,537)	(6,436)	—
Income tax benefit (expense)	1,066	1,629	486
Income (loss) from discontinued operations, net of taxes	$(22,073)	$ (2,961)	$ (759)

The $22.1 million loss from discontinued operations for the fiscal year 2005 includes the $13.1 million Temroc non-cash impairment losses discussed above, $3.9 million after-tax loss on sale of Piper Impact, $1.9 million after-tax operating loss at Piper Impact and a $2.9 million after-tax loss related to the sale of Nichols Aluminum-Golden. The $3.0 million loss from discontinued operations for the year ended October 31, 2004 includes a $0.6 million after-tax loss on the sale of Nichols Aluminum—Golden and net after-tax charges of $3.5 million related to Piper Impact offset by $1.7 million of Nichols Aluminum-Golden after-tax income for the period the Company owned the business. The $0.8 million loss from discontinued operations in fiscal 2003 was comprised of $3.1 million Piper Impact after-tax operating loss partially offset by a $2.0 million and $0.3 million of after-tax operating income at Nichols Aluminum-Golden and Temroc, respectively.

Cash Value of Life Insurance

2.154

POLO RALPH LAUREN CORPORATION (MAR)

(In thousands)	2005	2004
Total current assets	$1,413,763	$1,287,151
Property and equipment, net	487,894	408,741
Deferred tax assets	35,973	65,542
Goodwill, net	558,858	341,603
Intangibles, net	46,991	17,640
Other assets	183,190	176,875
Total assets	$2,726,669	$2,297,552

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Significant Accounting Policies

Officers' Life Insurance

We maintain whole life insurance policies on several of our senior executives. These policies are recorded at their cash surrender value. Additionally we have policies with split dollar arrangements which are recorded at the lesser of their cash surrender value or premiums paid. Amounts recorded under both types of policies aggregated $51.2 million and $50.2 million at April 2, 2005 and April 3, 2004, respectively, and are included in other assets in the accompanying consolidated balance sheets.

During Fiscal 2003, the Company ceased paying premiums on split dollar life insurance policies related to officers and terminated certain split dollar arrangements. As of April 2, 2005, $2.1 million of split dollar policies had either been surrendered to the insurance company for cash or bought out by the related employee.

8. Other Assets

Other assets consisted of the following:

	2005	2004
Equity interest investment	$ 61,970	$ 57,766
Officers' life insurance	51,169	50,250
Other long-term assets	70,051	68,859
	$183,190	$176,875

Contracts

2.155

DELUXE CORPORATION (DEC)

(In thousands)	2005	2004
Total current assets	$ 213,938	$ 240,386
Long-term investments	48,668	47,529
Property, plant, and equipment—net of accumulated depreciation	152,968	158,162
Assets held for sale	5,665	7,719
Intangibles—net of accumulated amortization	258,004	297,184
Goodwill	581,123	580,740
Non-current assets of discontinued operations	2,256	6,964
Other non-current assets	163,253	160,395
Total assets	$1,425,875	$1,499,079

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Contract Acquisition Costs

We record contract acquisition costs when we sign or renew certain contracts with our financial institution clients. These costs consists of cash payments or accruals related to amounts owed to financial institution clients by our Financial Services segment. Contract acquisition costs are generally amortized as reductions of revenue on the straight-line basis over the related contract term. Currently, these amounts are being amortized over periods ranging from one to 10 years, with a weighted-average life of 4.3 years as of December 31, 2005. Whenever events or changes occur that impact the related contract, including significant declines in the anticipated profitability, we evaluate the carrying value of the contract acquisitions costs to determine if impairment has occurred. Should a financial institution cancel a contract prior to the agreement's termination date, or should the volume of orders realized through a financial institution fall below contractually-specified minimums, we generally have a contractual right to a refund of the remaining unamortized contract acquisition costs. These costs are included in other non-current assets in the consolidated balance sheets.

Note 2 (In Part): Supplementary Balance Sheet and Cash Flow Information

Other Non-Current Assets

Other non-current assets as of December 31 were comprised of the following:

(In thousands)	2005	2004
Contract acquisition costs (net of accumulated amortization of $74,600 and $45,943, respectively)	$ 93,664	$ 83,825
Deferred advertising costs	27,017	31,455
Prepaid post-retirement asset	26,051	22,089
Other	16,521	23,026
Other non-current assets	$163,253	$160,395

Changes in contract acquisition costs were as follows:

(In thousands)	2005	2004	2003
Balance, beginning of year	$ 83,825	$ 96,085	$ 55,259
Cash payments	70,169	15,778	47,728
Change in contract acquisition obligations	(19,992)	6,490	18,684
Amortization	(34,731)	(34,528)	(25,586)
Refunds from contract terminations	(5,607)	—	—
Balance, end of year	$ 93,664	$ 83,825	$ 96,085

Estimated Insurance Recoveries

2.156

NOBLE ENERGY, INC. (DEC)

(In thousands)	2005	2004
Total current assets	$1,175,511	$ 733,561
Property, plant and equipment, at cost:		
Oil and gas mineral interests, equipment and facilities (successful efforts method of accounting)	8,411,426	4,136,088
Other	69,869	56,707
	8,481,295	4,192,795
Accumulated depreciation, depletion and amortization	(2,282,379)	(2,012,080)
Total property, plant and equipment, net	6,198,916	2,180,715
Equity method investments	420,362	377,384
Other assets	220,376	144,124
Goodwill	862,868	—
Total assets	$8,878,033	$3,435,784

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other Assets (In Part)

Other assets consists of the following at December 31:

(In thousands)	2005	2004
Probable insurance claims	$112,800	$ 84,832
Receivable related to derivative instruments	17,259	20,427
Marketable securities held by rabbi trust	39,676	—
Deferred loan fees	9,071	7,259
Intangible assets related to retirement plans	3,827	3,851
Other	37,743	27,755
Balance at end of period	$220,376	$144,124

Insurance (In Part)

The Company maintains various types of insurance coverages as are customary in the industry that include directors and officers liability, general liability, well control, pollution, acts of terrorism, physical damage insurance and business interruption insurance for certain international locations. The Company self-insures, is a shareholder in an industry mutual insurance company and purchases policies from third party insurance providers to cover various risks. The Company believes the coverages and types of insurance are adequate.

Note 4. Effect of Gulf Coast Hurricanes

2005 Hurricane Activity

In August 2005 Hurricane Katrina moved through the Gulf of Mexico and caused the loss of the Main Pass 306D platform. The net book value of the platform was $14.5 million. Clean-up costs associated with the damage resulted in an increase to the Main Pass asset retirement obligation of $66.0 million. The Company has accounted for the net book value of the destroyed platform and the increase in asset retirement costs as a loss on involuntary conversion.

Main Pass clean-up and redevelopment costs are recoverable from insurance proceeds. However, the insurer has indicated that its maximum exposure limit has been reached and consequently the final insurance recovery will be limited. During third quarter 2005, the Company recorded a loss on involuntary conversion of $1.0 million with respect to the insurance deductible and a probable insurance claim of $13.5 million. In the fourth quarter 2005, the Company increased the Hurricane Katrina related probable insurance claim to $79.5 million, the estimated final recovery. Total costs for clean up and redevelopment are estimated at approximately $170.0 million.

Included in probable insurance claims at December 31, 2005 are expenditures for $10.0 million related to Hurricane Katrina clean-up. The Company believes this amount to be fully collectible; however, total reimbursement will likely occur beyond 2006 due to time required for the insurer to review all Hurricane Katrina related claims and determine the Company specific claim limitation on the final recovery.

Hurricane Rita struck the Gulf Coast in September 2005. Inspection of the Company's operated platforms indicated that there was no additional significant damage; however, damage to third party processing and pipeline facilities has slowed reinstatement of production. Expenditures for minor repairs amounted to $2.2 million through December 31, 2005. Subject to a $1.0 million deductible, the Company expects damages from Hurricane Rita to be fully recoverable.

2004 Hurricane Activity

In September 2004, Hurricane Ivan caused infrastructure damage at Main Pass 293/305/306. Costs related to clean-up and redevelopment including replacing the assets that were destroyed by Hurricane Ivan are expected to be recoverable from insurance proceeds, subject to a $1.0 million deductible. This amount was recognized as a loss on involuntary conversion of assets during 2004. The Company will adjust the total loss attributable to the involuntary conversion in the period in which the contingencies related to the replacement costs are resolved. The Company does not recognize a gain until collection of the insurance claim has been received. The remediation work began second quarter 2005, and the Company commenced production from undamaged platforms in third quarter 2005. However, damage to third party processing and pipeline facilities caused by Hurricanes Katrina and Rita has subsequently reduced production.

The Company has contracted a vessel and support services through 2006 to repair Company assets damaged by hurricanes in the Gulf of Mexico. The Company expects to spend $72.8 million in 2006 related to the vessel and support services with an option to extend the contract through 2007.

As of December 31, 2005, based upon work completed, Noble Energy has submitted $84.0 million (cumulative) in claims related to Hurricane Ivan damage, none of which has been disputed, and received $49.0 million (cumulative) in reimbursements. The Company received an additional $35.0 million in reimbursements in January 2006. Noble Energy expects to continue to incur costs, submit claims and receive reimbursements in the normal course of business in 2006 and beyond. In February 2006, the Company received insurance reimbursements of $6.4 million related to Hurricane Katrina damage.

The loss of production is not covered by business interruption insurance.

Amounts related to involuntary conversions caused by hurricane damage are as follows:

(In thousands)	2005	2004
Net book value of assets impaired or destroyed	$ 14,500	$ 23,978
Increase in asset retirement obligation related to hurricane damage	66,000	130,000
Loss on involuntary conversion of assets	80,500	153,978
Probable insurance claims	(79,500)	(152,978)
Net loss on involuntary conversion of assets	$ 1,000	$ 1,000

Assets (liabilities) related to the hurricane insurance recoveries and included in the Company's balance sheet consist of the following:

(In thousands)	2005	2004
Probable insurance claims—current	$ 142,311	$ 65,000
Other assets (long-term portion of probable insurance claims)	112,800	84,832
Total expected Ivan and Katrina insurance recoveries	$ 255,111	$ 149,832
Asset retirement obligations—current	$ (42,016)	$ (65,000)
Asset retirement obligations—long-term	(121,800)	(65,000)
Total asset retirement obligations related to Main Pass assets	$(163,816)	$(130,000)

Film and Television Costs

2.157

VIACOM INC. (DEC)

(In millions)	2005	2004
Total current assets	$ 3,512.8	$ 2,626.3
Property and equipment		
Land	239.5	239.5
Buildings	201.0	220.8
Capital leases	523.0	498.7
Equipment and other	1,354.7	1,303.0
	2,318.2	2,262.0
Less accumulated depreciation and amortization	1,138.3	1,157.1
Net property and equipment	1,179.9	1,104.9
Inventory	2,973.2	2,740.4
Goodwill	10,361.4	10,266.9
Intangibles	370.8	250.2
Deferred tax assets, net	—	435.1
Other assets	717.5	691.3
Other assets of discontinued operations	—	325.7
Total assets	$19,115.6	$18,440.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

2 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories related to theatrical and cable programs (which includes direct production costs, theatrical production overhead and acquisition costs) are stated at the lower of amortized cost or net realizable value. Inventories are amortized and estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues. Estimates for initial domestic syndication and basic cable revenues are not included in the estimated lifetime revenues of network series until such sales are probable. These estimates are periodically reviewed and adjustments if any, will result in changes to inventory amortization rates and estimated accruals for residuals and participations.

The costs of theatrical development projects are amortized over a three year period unless they are abandoned earlier, in which case these projects are written down to their estimated net realizable value in the period the decision to abandon the project is determined.

The Company estimates that approximately 93% of unamortized costs of completed and released films at December 31, 2005 will be amortized within the next three years. Approximately $381 million of unamortized costs for completed and released films, and completed but not released films are expected to be amortized during the next twelve months. As of December 31, 2005, unamortized acquired film libraries of approximately $111 million remain to be amortized on a straight-line basis over an average remaining life of eight years.

Program Rights

The Company acquires rights to programming and produces programming to exhibit on its cable networks. The costs incurred in acquiring and producing programs are capitalized and amortized over the license period or projected useful life of the programming. Program rights and the related costs and obligations are recorded when the license period has begun, and when the program is accepted and available for airing.

8) Inventory

	2005	2004
Theatrical:		
Released (including acquired film libraries)	$ 699.3	$ 682.8
Completed, not released	46.2	66.0
In process and other	483.2	361.1
Program rights	2,098.3	1,915.4
Merchandise inventory	109.3	65.9
Other	43.5	45.8
Total inventory	3,479.8	3,137.0
Less current portion	506.6	396.6
Total non-current inventory	$2,973.2	$2,740.4

CURRENT LIABILITIES

2.158 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities*, as amended by SFAS No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, and SFAS No. 78, *Classification of Obligations That Are Callable by the Creditor*, discusses, in paragraphs 7 and 8, the nature of current liabilities. Examples of the various types of current liabilities follow.

SHORT-TERM DEBT

2.159 Table 2-22 lists the captions used by the survey companies to describe short-term notes payable, loans payable and commercial paper. By definition, such short-term obligations are financial instruments.

2.160 *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of short-term notes payable, loans payable, and commercial paper unless it is not practicable to estimate that value. 231 survey companies made 238 fair value disclosures. 41 of those disclosures used market or broker quotes of the short-term debt to determine fair value. 26 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Two of those disclosures estimated fair value using other valuation methods. 205 disclosures presented carrying amounts which approximated fair value of short-term debt. In addition, there were 38 disclosures in which carrying value was compared to fair value in an exposition or table. None of the disclosures stated it was not practicable to estimate fair value.

2.161 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.162 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.163 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.164 Examples of short-term debt presentations and disclosures follow.

2.165

TABLE 2-22: SHORT-TERM DEBT

	2005	2004	2003	2002
Description				
Notes or loans				
Payee indicated	27	26	31	45
Payee not indicated	85	89	100	112
Short-term debt or borrowings	133	138	145	148
Commercial paper	40	32	46	53
Credit agreements	37	13	12	9
Other	16	25	21	22
Total Presentations	**338**	**323**	**355**	**389**
Number of Companies				
Showing short-term debt	279	285	308	321
Not showing short-term debt	321	315	292	279
Total Companies	**600**	**600**	**600**	**600**

2.166

ALTRIA GROUP, INC. (DEC)

(In millions)	2005	2004
Short-term borrowings	$ 2,836	$ 2,546
Current portion of long-term debt	3,430	1,751
Accounts payable	3,645	3,466
Accrued liabilities		
Marketing	2,382	2,516
Taxes, except income taxes	2,871	2,909
Employment costs	1,296	1,325
Settlement charges	3,503	3,501
Other	3,130	3,072
Income taxes	1,393	983
Dividends payable	1,672	1,505
Total current liabilities	$26,158	$23,574

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Short-Term Borrowings and Borrowing Arrangements

At December 31, 2005 and 2004, Altria Group, Inc.'s short-term borrowings and related average interest rates consisted of the following:

	2005		2004	
(In millions)	Amount Outstanding	Average Year-End Rate	Amount Outstanding	Average Year-End Rate
Bank loans	$ 4,809	4.2%	$ 878	4.9%
Commercial paper	407	4.3	1,668	2.4
Amount reclassified as long-term debt	(2,380)			
	$ 2,836		$2,546	

The fair values of Altria Group, Inc.'s short-term borrowings at December 31, 2005 and 2004, based upon current market interest rates, approximate the amounts disclosed above.

Following a $10.1 billion judgment on March 21, 2003, against PM USA in the *Price* litigation, which is discussed in Note 19. *Contingencies*, the three major credit rating agencies took a series of ratings actions resulting in the lowering of ALG's short-term and long-term debt ratings. During 2003, Moody's lowered ALG's short-term debt rating from "P-1" to "P-3" and its long-term debt rating from "A2" to "Baa2." Standard & Poor's lowered ALG's short-term debt rating from "A-1" to "A-2" and its long-term debt rating from "A-" to "BBB." Fitch Rating Services lowered ALG's short-term debt rating from "F-1" to "F-2" and its long-term debt rating from "A" to "BBB."

While Kraft is not a party to, and has no exposure to, this litigation, its credit ratings were also lowered, but to a lesser degree. As a result of the rating agencies' actions, borrowing costs for ALG and Kraft have increased. None of ALG's or Kraft's debt agreements require accelerated repayment as a result of a decrease in credit ratings. The credit rating downgrades by Moody's, Standard & Poor's and Fitch Rating Services had no impact on any of ALG's or Kraft's other existing third-party contracts.

As discussed in Note 5. *Acquisitions*, the purchase price of the Sampoerna acquisition was primarily financed through a euro 4.5 billion bank credit facility arranged for PMI and its subsidiaries in May 2005, consisting of a euro 2.5 billion three-year term loan facility and a euro 2.0 billion five-year revolving credit facility. These facilities, which are not guaranteed by ALG, require PMI to maintain an earnings before interest, taxes, depreciation and amortization ("EBITDA") to interest ratio of not less than 3.5 to 1.0. At December 31, 2005, PMI exceeded this ratio by a significant amount and is expected to continue to exceed it.

In April 2005, ALG negotiated a 364-day revolving credit facility in the amount of $1.0 billion and a new multi-year credit facility in the amount of $4.0 billion, which expires in April 2010. In addition, ALG terminated the existing $5.0 billion multi-year credit facility, which was due to expire in July 2006. The new ALG facilities require the maintenance of an earnings to fixed charges ratio, as defined by the agreement, of 2.5 to 1.0. At December 31, 2005, the ratio calculated in accordance with the agreement was 10.0 to 1.0.

In April 2005, Kraft negotiated a new multi-year revolving credit facility to replace both its $2.5 billion 364-day facility that was due to expire in July 2005 and its $2.0 billion multi-year facility that was due to expire in July 2006. The new Kraft facility, which is for the sole use of Kraft, in the amount of $4.5 billion, expires in April 2010 and requires the maintenance of a minimum net worth of $20.0 billion. At December 31, 2005, Kraft's net worth was $29.6 billion.

ALG, PMI and Kraft expect to continue to meet their respective covenants. These facilities do not include any credit rating triggers or any provisions that could require the posting of collateral. The multi-year facilities enable the respective companies to reclassify short-term debt on a long-term basis.

At December 31, 2005, approximately $2.4 billion of short-term borrowings that PMI expects to remain outstanding at December 31, 2006 were reclassified as long-term debt.

At December 31, 2005, credit lines for ALG, Kraft and PMI, and the related activity, were as follows:

ALG

(In billions)	Credit Lines	Amount Drawn	Commercial Paper Outstanding	Lines Available
364-day	$1.0	$—	$—	$1.0
Multi-year	4.0	—	—	4.0
	$5.0	$—	$—	$5.0

KRAFT

(In billions)	Credit Lines	Amount Drawn	Commercial Paper Outstanding	Lines Available
Multi-year	$4.5	$—	$0.4	$4.1

PMI

(In billions)	Credit Lines	Amount Drawn	Lines Available
Euro 2.5 billion, 3-year term loan	$3.0	$3.0	$ —
Euro 2.0 billion, 5-year revolving credit	2.3	0.8	1.5
	$5.3	$3.8	$1.5

In addition to the above, certain international subsidiaries of ALG and Kraft maintain credit lines to meet their respective working capital needs. These credit lines, which amounted to approximately $2.2 billion for ALG subsidiaries (other than Kraft) and approximately $1.3 billion for Kraft subsidiaries, are for the sole use of these international businesses.Borrowings on these lines amounted to approximately $1.0 billion and $0.9 billion at December 31, 2005 and 2004, respectively.

ALG does not guarantee the debt of Kraft or PMI.

2.167

UNITED TECHNOLOGIES CORPORATION (DEC)

(In millions)	2005	2004
Short-term borrowings	$ 1,612	$ 1,320
Accounts payable	3,820	3,490
Accrued liabilities	9,220	8,245
Long-term debt currently due	693	40
Total current liabilities	$15,345	$13,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Borrowings and Lines of Credit

Short-term borrowings consist of the following:

(In millions)	2005	2004
Domestic borrowings	$ 5	$ 14
Foreign bank borrowings	548	302
Commercial paper	1,059	1,004
	$1,612	$1,320

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2005 and 2004 were 5.2% and 3.3%, respectively. At December 31, 2005, approximately $1.6 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

At December 31, 2005, we had credit commitments from banks totaling $1.5 billion under a revolving credit agreement, which serves as a back-up facility for the issuance of commercial paper. There were no borrowings under this revolving credit agreement at Decembers 31, 2005. An additional $2.5 billion revolving credit agreement established in 2004 was voluntarily terminated during 2005.

Note 13 (In Part): Financial Instruments

The carrying amounts and fair values of financial instruments at December 31 are as follows:

	2005		2004	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets and liabilities				
Marketable equity securities	$ 283	$ 283	$ 746	$ 746
Long-term receivables	178	174	170	166
Customer financing note receivables	502	478	483	465
Short-term borrowings	(1,612)	(1,612)	(1,320)	(1,320)
Long-term debt	(6,602)	(7,156)	(4,243)	(4,941)

The above fair values were computed based on comparable transactions, quoted market prices, discounted future cash flows or an estimate of the amount to be received or paid to terminate or settle the agreement, as applicable.

TRADE ACCOUNTS PAYABLE

2.168 All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-23, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable*.

2.169 As stated in paragraph 13 of *SFAS No. 107*, as amended by *SFAS No. 133*, fair value disclosure is not required for trade payables when the carrying amount of the trade payable approximates its fair value. 289 survey companies made 291 fair value disclosures. Carrying amount approximated fair value of trade payables for 283 disclosures.

2.170 Examples of trade accounts payable presentations follow.

2.171

TABLE 2-23: TRADE ACCOUNTS PAYABLE

	2005	2004	2003	2002
Accounts payable	460	458	466	454
Trade accounts payable	88	90	89	96
Accounts payable combined with accrued liabilities or accrued expenses	26	30	28	28
Other captions	26	22	17	22
Total Companies	**600**	**600**	**600**	**600**

2.172

BE AEROSPACE, INC. (DEC)

(In millions)	2005	2004
Current liabilities		
Accounts payable and accrued liabilities	$169.3	$152.6
Current portion of long-term debt	1.5	1.5
Total current liabilities	$170.8	$154.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2005	2004
Accounts payable	$ 80.7	$ 75.0
Accrued salaries, vacation and related benefits	21.6	16.0
Accrued interest	14.1	14.1
Accrued product warranties	14.3	13.2
Other accrued liabilities	38.6	34.3
	$169.3	$152.6

13 (In Part): Fair Value Information

The following disclosure of the estimated fair value of financial instruments at December 31, 2005 and 2004 is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies; however, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable-trade, and accounts payable are a reasonable estimate of their fair values as interest is based upon floating market rates. The fair values of the Company's Notes as of December 31, 2005 and 2004 are as follows:

	2005	2004
$8\frac{1}{2}$% Notes	$186.4	$192.5
8% Notes	250.0	248.8
$8\frac{7}{8}$% Notes	262.5	260.0

The fair value information presented herein is based on pertinent information available to management at December 31, 2005 and December 31, 2004, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

2.173

STANDARD MOTOR PRODUCTS, INC. (DEC)

(Dollars in thousands)	2005	2004
Current liabilities		
Notes payable	$149,236	$109,416
Current portion of long-term debt	542	534
Accounts payable	52,535	46,487
Sundry payables and accrued expenses	24,466	31,241
Accrued customer returns	22,346	23,127
Restructuring accrual	1,286	6,999
Accrued rebates	24,017	24,210
Payroll and commissions	11,494	10,442
Total current liabilities	$285,922	$252,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Trade Accounts Payable

The carrying amount of trade payables approximates fair value because of their short outstanding terms.

EMPLOYEE-RELATED LIABILITIES

2.174 Table 2-24 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of employee related liability presentations and disclosures follow.

2.175

TABLE 2-24: EMPLOYEE-RELATED LIABILITIES

	2005	2004	2003	2002
Description				
Salaries, wages, payrolls, commissions	262	265	266	266
Compensation	225	228	222	218
Benefits	65	76	60	50
Pension or profit-sharing contributions	60	56	49	48
Compensated absences	13	13	14	14
Other	42	44	46	48
Total Presentations	**667**	**682**	**657**	**644**
Number of Companies				
Disclosing employee related liabilities	501	506	500	499
Not disclosing	99	94	100	101
Total Companies	**600**	**600**	**600**	**600**

2.176

CNF INC. (DEC)

(Dollars in thousands)	2005	2004
Current liabilities		
Accounts payable	$276,097	$252,867
Accrued liabilities (Note 4)	214,883	226,437
Self-insurance accruals	91,354	86,095
Current maturities of long-term debt	15,033	112,727
Liabilities of discontinued operations	34,129	34,705
Total current liabilities	$631,496	$712,831

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accrued Liabilities

Accrued liabilities consisted of the following:

(Dollars in thousands)	2005	2004
Holiday and vacation pay	$ 56,883	$ 55, 739
Incentive compensation	33,723	53,800
Wages and salaries	31,379	24,719
Employee benefits	28,397	24,491
Taxes other than income taxes	23,574	20,102
Estimated revenue adjustments	8,439	8,753
Accrued interest	6,253	6,865
Other accrued liabilities	26,235	31,968
Total accrued liabilities	$214,883	$226,437

2.177

CSP INC. (SEP)

(Amounts in thousands)	2005	2004
Current liabilities		
Accounts payable and accrued expenses	$6,200	$8,103
Pension and retirement plans	438	368
Income taxes payable	943	700
Current liabilities of discontinued operations	—	82
Total current liabilities	$7,581	$9,253

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Pension and Retirement Plans

In the United Kingdom and Germany, the Company provides defined benefit pension plans and defined contribution plans for the majority of its employees. Domestically, the Company also provides benefits through supplemental retirement plans to certain current and former employees. These supplemental plans provide benefits derived out of cash surrender values relating to current and former employee and officer life insurance policies, equal to the difference between the amounts that would have been payable under the defined benefit pension plans, in the absence of legislation limiting pension benefits and earnings that may be considered in calculating pension benefits, and the amounts actually payable under the defined benefit pension plans. Domestically, the Company provides for officer death benefits through the post-retirement plans to certain officers.

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheet.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

(Amounts in thousands)	2005	2004
Accounts payable	$1,457	$3,349
Commissions	163	133
Compensation and fringe benefits	1,507	1,832
Customer advances	1,464	1,408
Professional fees and shareholders' reporting costs	592	699
Taxes, other than income	342	289
Other	675	393
	$6,200	$8,103

INCOME TAX LIABILITY

2.178 Table 2-25 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

2.179

TABLE 2-25: CURRENT INCOME TAX LIABILITY

	2005	**2004**	**2003**	**2002**
Income taxes	336	334	318	296
Taxes—type not specified	59	57	59	47
Federal and state income taxes	10	9	8	9
U.S. and foreign income taxes	8	5	8	4
Federal, state, and foreign income taxes	3	6	11	10
Federal income taxes	3	4	2	5
Federal and foreign income taxes	2	4	2	5
Other captions	9	13	10	18
No current income tax liability	170	168	182	206
Total Companies	**600**	**600**	**600**	**600**

2.180

ELECTRONIC ARTS INC. (MAR)

(In millions)	2005	2004
Current liabilities		
Accounts payable	$134	$114
Accrued and other liabilities	694	630
Total current liabilities	$828	$744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8) (In Part): Balance Sheet Details

c) Accrued and Other Liabilities

Accrued and other liabilities as of March 31, 2005 and 2004 consisted of (in millions):

	2005	2004
Accrued income taxes	$267	$226
Other accrued expenses	172	120
Accrued compensation and benefits	132	143
Accrued royalties	88	118
Deferred revenue	35	23
Accrued and other liabilities	$694	$630

2.181

EMC CORPORATION (DEC)

(In thousands)	2005	2004
Current liabilities		
Accounts payable	$ 583,756	$ 522,770
Accrued expenses	1,279,857	1,090,666
Income taxes payable	645,694	404,772
Deferred revenue	1,164,551	930,492
Total current liabilities	$3,673,858	$2,948,700

CURRENT AMOUNT OF LONG-TERM DEBT

2.182 Table 2-26 summarizes the descriptive balance sheet captions used to describe the amount of long-term debt payable during the next year. *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of the current amount of long-term debt unless it is not practicable to estimate that value. 143 survey companies made 160 fair value disclosures. 49 of those disclosures used market or broker quotes of the current amount of long-term debt to determine fair value. 48 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Two of those disclosures estimated fair value using other valuation methods. 104 disclosures presented carrying amounts which approximated fair value of current amount of long-term debt. In addition there were 32 disclosures in which carrying value was compared to fair value in an exposition or a table. None of the disclosures stated it was not practicable to estimate fair value.

2.183 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.184 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.185 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were complied.

2.186

TABLE 2-26: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Current portion of long-term debt	233	234	232	233
Current maturities of long-term debt	156	162	163	161
Current amount of long-term leases	36	44	34	36
Long-term debt due or payable within one year	32	33	32	36
Current installment of long-term debt	11	16	11	21
Other captions	10	14	11	13

2.187

POTLATCH CORPORATION (DEC)

(In thousands)	2005	2004
Current liabilities		
Current installments on long-term debt (Notes 8 and 11)	$ 2,357	$ 1,107
Accounts payable and accrued liabilities	144,635	151,198
Total current liabilities	$146,992	$152,305

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Debt

(Dollars in thousands)	2005	2004
Revenue bonds, fixed-rate 5.9% to 7.75%, due 2006 through 2026	$158,440	$159,504
Debentures, 6.95%, due 2015	22,476	22,473
Credit sensitive debentures, 9.125%, due 2009	100,000	100,000
Medium-term notes, fixed-rate 8.65% to 9.35%, due 2006 through 2022	48,950	48,950
Senior subordinated notes, 10%, due 2011	5,504	5,504
Other notes	84	91
	335,454	336,522
Less current installments on long-term debt	2,357	1,107
Long-term debt	$333,097	$335,415

Payments due on long-term debt during each of the five years subsequent to December 31, 2005, are as follows:

(Dollars in thousands)	
2006	$ 2,357
2007	6,159
2008	209
2009	100,410
2010	11

Note 11 (In Part): Financial Instruments

Estimated fair values of our financial instruments are as follows:

	2005		2004	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	$ 63,833	$ 63,833	$120,621	$120,621
Long-term debt	335,454	359,302	336,522	377,534

For short-term investments the carrying amount approximates fair value. The fair value of our long-term debt is estimated based upon the quoted market prices for the same or similar debt issues. The amount of long-term debt for which there is no quoted market price is immaterial and the carrying amount approximates fair value.

2.188

SMURFIT-STONE CONTAINER CORPORATION (DEC)

(In millions)	2005	2004
Current liabilities		
Current maturities of long-term debt	$ 35	$ 19
Accounts payable	654	604
Accrued compensation and payroll taxes	186	191
Interest payable	97	95
Income taxes payable	17	—
Current deferred taxes	15	—
Other current liabilities	184	207
Total current liabilities	$1,188	$1,116

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions)

8 (In Part): Long-Term Debt

Long-term debt as of December 31 is as follows.

	2005	2004
Bank credit facilities		
Tranche B term loan (6.7% weighted average variable rate), due in various installments through November 1, 2011	$ 878	$ 975
Tranche C term loan (6.7% weighted average variable rate), due in various installments through November 1,2011	298	300
Tranche C-1 term loan (6.6% weighted average variable rate), due in various installments through November 1, 2011	90	
SSCE revolving credit facility (7.7% weighted average variable rate), due November 1, 2009	98	144
SSC Canada revolving credit facility (7.8% weighted average variable rate), due November 1, 2009	147	
	1,511	1,419
Senior notes		
8.45% mortgage notes, payable in monthly installments through August 1, 2007 and $69 on September 1. 2007	72	74
9.25% unsecured senior notes, due February 1, 2008	300	300
9.75% unsecured senior notes, due February 1, 2011	750	750
8.375% unsecured senior notes, due July 1, 2012	400	400
8.25% unsecured senior notes, due October 1, 2012	700	700
7.50% unsecured senior notes, due June 1, 2013	300	300
7.375% unsecured senior notes, due July 15, 2014	200	200
	2,722	2,724
Other debt		
Fixed rate utility systems and pollution control revenue bonds (fixed rates ranging from 5.1% to 8.1%) payable in varying annual payments through 2027	193	207
Variable rate industrial revenue bonds (6.3% weighted average variable rate), payable in varying annual payments through 2035	120	120
Other (including obligations under capitalized leases of $12 and $13)	25	28
	338	355
Total debt	4,571	4,498
Less current maturities	(35)	(19)
Total long-term debt	$4,536	$4,479

The amounts of total debt outstanding at December 31,2005 maturing during the next five years are as follows:

2006	$ 35
2007	89
2008	317
2009	264
2010	135
Thereafter	3,731

22. Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments as of December 31 are as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 5	$ 5	$ 6	$ 6
Cost method investments	2	2		
Notes receivable	8	8	7	7
Residual interest in timber notes	46	46	45	45
Net derivative assets	57	57	11	11
Long-term debt including current maturities	4,571	4,485	4,498	4,746

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of cost method investments approximates fair value. The fair values of notes receivable are based on discounted future cash flows or the applicable quoted market price. The fair value of the residual interest in timber notes is based on discounted future cash flows. The fair values of the Company's derivatives are based on prevailing market rates. The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

OTHER CURRENT LIABILITIES

2.189 Table 2-27 summarizes other identified current liabilities. The most common types of other current liabilities are deferred revenue, liabilities related to discontinued operations, accrued interest, and taxes other than federal income taxes.

2.190

TABLE 2-27: OTHER CURRENT LIABILITIES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Deferred revenue	162	144	127	116
Costs related to discontinued operations/restructuring	161	163	151	157
Interest	137	141	130	122
Taxes other than federal income taxes	127	121	117	112
Warranties	126	122	126	104
Insurance	125	96	89	76
Deferred taxes	82	72	69	61
Customer advances, deposits	68	63	64	60
Advertising	66	63	60	51
Derivatives	64	61	52	45
Rebates	59	45	40	21
Dividends	58	62	56	52
Environmental costs	56	53	48	50
Litigation	46	47	30	37
Billings on uncompleted contracts	28	30	19	18
Royalties	25	22	20	19
Due to affiliated companies	18	14	22	20
Asset retirement obligations	11	11	6	—
Other—described	139	167	153	164

Deferred Revenue

2.191

SUN MICROSYSTEMS, INC. (JUN)

(In millions)	2005	2004
Current liabilities		
Current portion of long-term debt and short-term borrowings	$ —	$ 257
Accounts payable	1,167	1,057
Accrued payroll-related liabilities	713	622
Accrued liabilities and other	1,014	1,325
Deferred revenues	1,648	1,617
Warranty reserve	224	252
Total current liabilities	$4,766	$5,130

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Multiple Deliverable Arrangements

Sun enters into revenue arrangements to sell products (hardware and software) and services in which we are obligated to deliver to our customers multiple products and/or services (multiple deliverables). Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables (items) can be divided into more than one unit of accounting. An item can generally be considered a separate unit of accounting if all of the following criteria are met:

- The delivered item(s) has value to the customer on a standalone basis;

- There is objective and reliable evidence of the fair value of the undelivered item(s); and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of Sun.

Items which do not meet these criteria are combined into a single unit of accounting. If there is objective and reliable evidence of fair value for all units of accounting, the arrangement consideration is allocated to the separate units of accounting based on their relative fair values. In cases where there is objective and reliable evidence of the fair value of the undelivered item(s) in an arrangement but no such evidence for the delivered item(s), the residual method is used to allocate the arrangement consideration. For units of accounting which include more than one deliverable, we generally defer all revenue for the unit of accounting until the period over which the last undelivered item is delivered. The revenue policies described below are then applied to each unit of accounting.

We recognize revenue when the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the sales price is fixed or determinable; and 4) collectibility is probable. Our standard agreements generally do not include customer acceptance provisions. However, if there is a customer acceptance provision or there is uncertainty about customer acceptance, the associated revenue is deferred until we have evidence of customer acceptance.

Products Revenue

Products revenue for sales to both end-user customers and resellers is generally recognized upon the passage of title if all other revenue recognition criteria have been met. End-user customers generally do not have return rights. Our program offerings to certain of our resellers and distributors (Channel Partners) provide for the limited right to return our product for stock rotation. We reduce revenue for rights to return our product based upon our historical experience with the Channel Partners. In accordance with contractual provisions, we offer price protection to certain of our Channel Partners. We also offer margin protection to our Channel Partners on certain transactions. For our price protection and margin protection programs, we reduce revenue based upon our historical experience. In accordance with contractual provisions, to certain of our Channel Partners we also offer co-operative marketing funds based on a fixed dollar percentage of product sales. We record the amount as a reduction to revenue or, if we have evidence of fair value of the advertising benefit received as marketing expense.

In addition, we sell products to leasing companies that, in turn, lease these products to end-users. In transactions where the leasing companies have no recourse to Sun in the event of default by the end-user, we recognize revenue at point of shipment or point of delivery, depending on the shipping terms and if all the other revenue recognition criteria have been met. In arrangements where the leasing companies have full recourse to Sun in the event of default by the end-user (defined as recourse leasing), we recognize both the product revenue and the related cost of the product as the payments are made to the leasing company by the end-user, generally ratably over the lease term. We had deferred revenue and related deferred costs of $37 million and $16 million, respectively, at June 30, 2005 and $16 million and $7 million, respectively, at June 30, 2004, related to recourse leases which will be recognized in future periods.

For revenue arrangements with multiple deliverables that include software products and services as well as any non-software deliverables for which a software deliverable is essential to its functionality, we apply the accounting guidance in SOP 97-2, "Software Revenue Recognition" in determining the timing of revenue recognition. The criteria assessed include the following: 1) the functionality of the delivered element(s) is not dependent on the undelivered element; 2) there is Sun-specific objective evidence of fair value of the undelivered element(s), and 3) delivery of the delivered element(s) represents the culmination of the earnings process for those element(s). If these criteria are not met, revenue is deferred until such criteria are met or until the last element is delivered.

Services Revenue

Maintenance contract revenue is recognized ratably over the contractual period. Educational services revenue is recognized as the services are rendered. Time and material, and fixed price Client solutions contract revenue is recognized as the professional services are rendered, or upon completion of the services contract. If we can reliably evaluate progress to completion (based on total projected hours to be incurred as compared with hours already incurred), we recognize the revenue as the services are rendered and recognize the related costs as they are incurred. In instances where we cannot reliably estimate the total projected hours, we recognize revenue and the associated costs upon completion of the services contract. For fixed price Client solutions contracts when the current estimates of total contract revenue and contract cost indicate a loss, the estimated loss is recognized in the period the loss becomes evident.

7 (In Part): Balance Sheet Details

Deferred Revenues

The following table sets forth an analysis of our deferred revenue activity (in millions):

	Deferred Services Revenues	Other Deferred Revenues	Total
Balance at June 30, 2004	$ 1,612	$ 562	$ 2,174
Revenue deferred	1,402	899	2,301
Revenue recognized	(1,362)	(921)	(2,283)
Balance at June 30, 2005	1,652	540	2,192
Less short-term portion	(1,185)	(463)	(1,648)
Total long-term deferred revenues	$ 467	$ 77	$ 544

Deferred services revenues consist primarily of billings to our customers related to: (1) maintenance contract revenue, which is recognized ratably over the contractual period; (2) Educational services revenue, which is recognized as the services are rendered; (3) time and material Client solutions contract revenue, which is recognized as the services are rendered; and (4) fixed price Client solutions contract revenue, which is recognized as the services are rendered or upon completion of the Client solutions services contract.

Other deferred revenues primarily comprised revenue deferred in connection with product installations, software OEM sales and customer deposits.

Costs Related to Discontinued Operations/ Restructuring

2.192

ADC TELECOMMUNICATIONS, INC. (OCT)

(In millions)	2005	2004
Current liabilities		
Accounts payable	$ 77.4	$ 72.5
Accrued compensation and benefits	80.9	65.6
Other accrued liabilities	78.8	80.9
Income taxes payable	15.9	27.6
Restructuring accrual	33.3	38.4
Liabilities of discontinued operations	—	16.7
Notes payable	0.3	0.3
Total current liabilities	$286.6	$302.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Impairment, Restructuring, and Other Disposal Charges

During fiscal 2005, 2004 and 2003, we continued our plan to improve operating performance by restructuring and streamlining our operations. As a result, we incurred impairment charges related to the disposal of excess equipment, restructuring charges associated with workforce reductions as well as the consolidation of excess facilities, other disposal charges associated with inventory write-offs and certain administrative charges related to product line divestitures. We recorded impairment and restructuring charges of $8.7 million, $10.9 million and $34.3 million during fiscal 2005, 2004 and 2003, respectively, to our Broadband Infrastructure and Access segment. We recorded impairment and restructuring charges of $6.3 million, $2.7 million and $8.9 million during fiscal 2005, 2004 and 2003, respectively, to our Professional services segment. The impairment, restructuring and other disposal charges resulting from our actions, by category of expenditures, adjusted to exclude those activities specifically related to discontinued operations, are as follows for 2005, 2004 and 2003, respectively (in millions):

	Impairment Charges	Restructuring Charges	Total
Fiscal 2005			
Employee severance costs	$ —	$11.2	$11.2
Facilities consolidation and lease termination	—	3.5	3.5
Fixed asset write-downs	0.3	—	0.3
Total	$ 0.3	$14.7	$15.0
Fiscal 2004			
Employee severance costs	$ —	$ 9.3	$ 9.3
Facilities consolidation and lease termination	—	2.6	2.6
Fixed asset write-downs	1.7	—	1.7
Total	$ 1.7	$11.9	$13.6
Fiscal 2003			
Employee severance costs	$ —	$23.5	$23.5
Facilities consolidation and lease termination	—	4.1	4.1
Fixed asset write-downs	15.6	—	15.6
Total	$15.6	$27.6	$43.2

Restructuring Charges

Restructuring charges relate principally to employee severance and facility consolidation costs resulting from the closure of facilities and other workforce reductions attributable to our efforts to reduce costs. During fiscal 2005, 2004 and 2003, we terminated the employment of approximately 500, 200 and 1,300 employees, respectively, through reductions in force. The costs of these reductions have been and will be funded through cash from operations. These reductions have impacted both of our business segments.

Facility consolidation and lease termination costs represent costs associated with our decision to consolidate and close duplicative or excess manufacturing and office facilities. We incurred charges of $6.2 million and $16.0 million for the fiscal years ended October 31, 2005 and October 31, 2004, respectively, primarily due to our decision to close unproductive and excess facilities and the continued softening of real estate markets, which resulted in lower sublease income.

The following table provides detail on the activity and our remaining restructuring accrual balance by category as of 2005, 2004 and 2003 (in millions):

Type of Charge	Accrual October 31, 2004	Discontinued Operations Net Additions	Continuing Operations Net Additions	Cash Charges	Accrual October 31, 2005
Employee severance costs	$ 9.6	$ 0.1	$11.2	$12.2	$ 8.7
Facilities consolidation	28.8	2.7	3.5	10.4	24.6
Total	$38.4	$ 2.8	$14.7	$22.6	$33.3

Type of Charge	Accrual October 31, 2003	Discontinued Operations Net Additions	Continuing Operations Net Additions	Cash Charges	Accrual October 31, 2004
Employee severance costs	$ 3.0	$ 4.5	$ 9.3	$ 7.2	$ 9.6
Facilities consolidation	26.1	13.4	2.6	13.3	28.8
Total	$29.1	$17.9	$11.9	$20.5	$38.4

Included in the October 31, 2004 accrual balance of $38.4 million is $4.4 million related to reserves acquired with the KRONE acquisition, of which $4.1 million was paid as of October 31, 2005.

We expect that substantially all of the remaining $8.7 million of cash expenditures relating to employee severance costs incurred through October 31, 2005 will be paid by the end of fiscal 2006. Of the $24.6 million to be paid for the consolidation of facilities, we expect that approximately $10.0 million will be paid from unrestricted cash in fiscal 2006, and that the balance will be paid from unrestricted cash over the respective lease terms of the facilities through 2015. Based on our intention to continue to consolidate and close duplicative or excess manufacturing operations in order to reduce our cost structure, we may incur additional restructuring charges (both cash and non-cash) in future periods. These restructuring charges may have a material effect on our operating results.

Interest

2.193

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

(In millions)	2005	2004
Current liabilities		
Accounts payable	$1,249.5	$1,194.8
Accrued salaries, wages and benefits	250.9	291.4
Accrued taxes	156.7	152.9
Accrued interest	123.7	125.2
Other current liabilities	201.8	204.7
Total current liabilities	$1,982.6	$1,969.0

Taxes Other Than Federal Income Taxes

2.194

MASCO CORPORATION (DEC)

(In millions)	2005	2004
Current liabilities		
Notes payable	$ 832	$ 80
Accounts payable	837	837
Accrued liabilities	1,225	1,230
Total current liabilities	$2,894	$2,147

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Accrued Liabilities

(In millions)	2005	2004
Employee retirement plans	$ 216	$ 223
Salaries, wages and commissions	201	209
Insurance	194	183
Advertising and sales promotion	140	136
Warranty	105	100
Dividends payable	83	81
Interest	74	73
Income taxes	61	59
Property, payroll and other taxes	57	64
Litigation	10	22
Other	84	80
Total	$1,225	$1,230

Product Warranties

2.195

PEERLESS MFG. CO. (JUN)

(In thousands)	2005	2004
Current liabilities		
Accounts payable	$ 8,572	$ 9,791
Billings in excess of costs and earnings on uncompleted contracts	2,081	399
Commissions payable	762	844
Income taxes payable	—	557
Product warranties	845	982
Accrued liabilities and other	3,058	1,923
Current liabilities of discontinued operations	106	306
Total current liabilities	$15,424	$14,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

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

Warranty Costs

The company provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which the revenue is recognized based on historical experience, expectation of future conditions, and the extent of backup concurrent supplier warranties in place.

Note I. Product Warranties

The Company warrants that its products will be free from defects in materials and workmanship and will conform to agreed upon specifications at the time of delivery and typically for a period of 12 to 18 months from the date of customer acceptance, depending upon the specific product and terms of the customer agreement. Typical warranties require the Company to repair or replace defective products during the warranty period at no cost to the customer. The Company attempts to obtain back-up concurrent warranties for major component parts from its suppliers. The Company provides for the estimated cost of product warranties, based on historical experience by product type, expectation of future conditions and the extent of back-up concurrent supplier warranties in place, at the time the product revenue is recognized. Revision to the estimated product warranties is made when necessary, based on changes in these factors. Product warranty activity is as follows:

	2005	2004	2003
Balance at beginning of period	$ 982	$ 846	$ 627
Provision for warranty expenses	541	880	1,157
Warranty charges	(678)	(744)	(938)
Balance at end of period	$ 845	$ 982	$ 846

Insurance

2.196

APPLIED INDUSTRIAL TECHNOLOGIES, INC. (JUN)

(In thousands)	2005	2004
Current liabilities		
Accounts payable	$ 99,047	$ 76,537
Compensation and related benefits	51,971	47,032
Other current liabilities	30,677	27,760
Total current liabilities	$181,695	$151,329

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

Note 1 (In Part): Business and Accounting Policies

Self-Insurance Liability

The Company maintains business insurance programs with significant self-insured retention, which cover workers' compensation, business automobile and general product liability claims. The Company accrues estimated losses using actuarial calculations, models and assumptions based on historical loss experience. The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company maintains a reserve for incurred but not reported medical claims based on historical experience and other assumptions. The Company utilizes independent actuarial firms to assist in determining the adequacy of all self-insurance liability reserves.

Note 5 (In Part): Other Balance Sheet Information

Other current liabilities consist of the following:

	2005	2004
Accrued income and other taxes	$ 7,517	$ 8,725
Currency swap liability	7,527	3,024
Accrued self-insurance liabilities	4,054	4,458
Deferred lease liabilities	3,903	4,247
Other	7,676	7,306
Total	$30,677	$27,760

Deferred Taxes

2.197

THE KROGER CO. (JAN)

(In millions)	2006	2005
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 554	$ 71
Accounts payable	3,550	3,598
Accrued salaries and wages	742	659
Deferred income taxes	217	286
Other current liabilities	1,652	1,721
Total current liabilities	$6,715	$6,335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions)

1 (In Part): Accounting Policies

Deferred Income Taxes

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax basis of assets and liabilities and their financial reporting basis. Refer to Note 6 for the types of differences that give rise to significant portions of deferred income tax assets and liabilities. Deferred income taxes are classified as a net current or noncurrent asset or liability based on the classification of the related asset or liability for financial reporting purposes. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date.

6 (In Part): Taxes Based on Income

The tax effects of significant temporary differences that comprise tax balances were as follows:

	2005	2004
Current deferred tax assets		
Net operating loss carryforwards	$ 18	$ 19
Other	42	—
Total current deferred tax assets	60	19
Current deferred tax liabilities		
Compensation related costs	(2)	(19)
Insurance related costs	(107)	(136)
Inventory related costs	(168)	(119)
Other	—	(31)
Total current deferred tax liabilities	$ (277)	$ (305)
Current deferred taxes	$ (217)	$ (286)
Long-term deferred tax assets		
Compensation related costs	$ 290	$ 383
Insurance related costs	9	15
Lease accounting	106	60
Closed store reserves	95	115
Net operating loss carryforwards	26	79
Other	21	147
Long-term deferred tax assets, net	547	799
Long-term deferred tax liabilities		
Depreciation	(1,193)	(1,437)
Deferred income	(197)	(203)
Total long-term deferred tax liabilities	(1,390)	(1,640)
Long-term deferred taxes	$ (843)	$ (841)

At January 28, 2006, the Company had net operating loss carryforwards for federal income tax purposes of $126 that expire from 2010 through 2018. In addition, the Company had net operating loss carryforwards for state income tax purposes of $394 that expire from 2009 through 2023. The utilization of certain of a the Company's net operating loss carryforwards may be limited in a given year.

At January 28, 2006, the Company had state Alternative Minimum Tax Credit carryforwards of $5. In addition, the Company had other state credits of $20, which expire from 2006 through 2015. The utilization of certain of the Company's credits may be limited in a given year.

Advances/Deposits

2.198

ATMEL CORPORATION (DEC)

(In thousands)	2005	2004
Current liabilities		
Current portion of long-term debt	$112,107	$141,383
Convertible notes	142,401	—
Trade accounts payable	140,717	245,240
Accrued and other liabilities	201,398	211,425
Deferred income on shipments to distributors	18,345	21,124
Total current liabilities	$614,968	$619,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 2 (In Part): Balance Sheet Detail

Accrued and other liabilities consist of the following:

	2005	2004
Advance payments from customers	$ 10,000	$ 10,000
Income tax payable	10,105	7,508
Deferred income tax liabilities	4,535	1,551
Accrued salaries and benefits	76,689	80,215
Deferred grants, current	19,847	21,413
Warranty reserves and accrued returns, royalties and licenses	22,353	26,855
Restructuring accrual	4,919	1,072
Accrued expenses and other	52,950	62,811
	$201,398	$211,425

The customer advances relate to supply agreements into which Atmel entered with a specific customer in 2000. The supply agreements call for the Company to make available to the customer a minimum quantity of products. Minimum payments are required each year on these agreements, with additional payments to be made if the customer exceeds certain purchasing levels. As of December 31, 2005, Atmel had remaining $84,668 in customer advances received, of which $10,000 is recorded in accrued and other liabilities and $74,668 in other long-term liabilities. Minimum payments required to be made annually are the greater of 15% of the value of product shipped to the customer or $10,000, until such time that the advances have been fully repaid. The Company repaid $10,000 in each of the three years ended December 31, 2005 under these agreements.

Advertising

2.199

CDW CORPORATION (DEC)

(In thousands)	2005	2004
Current liabilities		
Accounts payable	$245,201	$167,877
Accrued expenses		
Compensation	42,585	41,178
Income taxes	7,409	14,661
Sales taxes	21,473	6,236
Advertising	18,193	17,535
Other	32,900	23,377
Total current liabilities	$367,761	$270,864

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Advertising

Advertising costs are charged to expense in the period incurred. Cooperative reimbursements from vendors are recorded in the period the related advertising expenditure is incurred.

Net advertising expense was $114.5 million, $90.8 million and $64.1 million in 2005, 2004 and 2003, respectively. Net advertising expense has increased, as vendor consideration which would have previously been classified as cooperative reimbursements, is classified as a reduction of cost of sales due to the adoption of Emerging Issues Task Force Issue No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)" ("EITF 02-16") on January 1, 2003. In 2005, 100% of cooperative advertising reimbursements were classified as a reduction of cost of sales rather than a reduction of advertising expense.

Derivatives

2.200

COOPER CAMERON COPORATION (DEC)

(Dollars in thousands)	2005	2004
Current portion of long-term debt	$ 6,471	$ 7,319
Accounts payable and accrued liabilities	891,519	516,872
Accrued income taxes	23,871	4,069
Total current liabilities	$921,861	$528,260

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

The Company recognizes all derivative financial instruments as assets and liabilities and measures them at fair value. Under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), hedge accounting is only applied when the derivative is deemed highly effective at offsetting changes in anticipated cash flows of the hedged item or transaction. Changes in fair value of derivatives that are designated as cash flow hedges are deferred in accumulated other comprehensive income until the underlying transactions are recognized in earnings, at which time any deferred hedging gains or losses are also recorded in earnings on the same line as the hedged item. Any ineffective portion of the change in the fair value of a derivative used as a cash flow hedge is recorded in earnings as incurred. The Company may at times also use forward contracts to hedge foreign currency assets and liabilities. These contracts are not designated as hedges under SFAS 133. Therefore, the change in fair value of these contracts are recognized in earnings as they occur and offset gains or losses on the related asset or liability.

Note 7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

(Dollars in thousands)	2005	2004
Trade accounts payable and accruals	$409,385	$252,049
Salaries, wages and related fringe benefits	128,144	89.654
Advances from customers	240,980	88,269
Payroll and other taxes	25,858	22,456
Product warranty	25,030	16,481
Fair value of derivatives	7,688	—
Deferred income taxes	6,846	13,505
Product liability	5,552	5,603
Accruals for plant closing, business realignment and other related costs	1,068	5,670
Other	40,968	23,185
Total accounts payable and accrued liabilities	$891,519	$516,872

Note 15 (In Part): Off-Balance Sheet Risk and Guarantees, Concentrations of Credit Risk and Fair Value of Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, derivative instruments and debt instruments. The book values of cash and cash equivalents, trade receivables and trade payables and floating-rate debt instruments are considered to be representative of their respective fair values.

At December 31, 2005, the Company was party to a number of long-term foreign currency forward contracts. The purpose of the majority of the contracts was to hedge large anticipated non-functional currency cash flows on a major subsea contract involving the Company's wholly-owned subsidiary in the United Kingdom. Information relating to the contracts and the fair value recorded in the Company's Consolidated Balance Sheet (determined based on quoted forward rates) at December 31, 2005 follows:

	Year of Contract Expiration				
(Amounts in thousands except exchange rates)	2006	2007	2008	2009	Total
Sell USD/Buy GBP:					
Notional amount to sell (in U.S. dollars)	$141,443	$65,406	$10,966	$2,621	$220,436
Average GBP to USD contract rate	1.8148	1.8091	1.8039	1.7989	1.8124
Average GBP to USD forward rate at December 31, 2005	1.7248	1.7311	1.7358	1.7383	1.7274
Fair value at December 31, 2005 in U.S. dollars					$ (10,313)
Buy euro/Sell GBP:					
Notional amount to buy (in euros)	28,931	15,965	899	12	45,807
Average GBP to EUR contract rate	1.4137	1.3902	1.3693	1.3450	1.4045
Average GBP to EUR forward rate at December 31, 2005	1.4399	1.4232	1.4068	1.3854	1.4333
Fair value at December 31, 2005 in U.S. dollars					$ (1,128)
Buy NOK/Sell GBP:					
Notional amount to buy (in Norwegian krone)	37,208	20,671	600	—	58,479
Average GBP to NOK contract rate	11.4303	11.2999	11.2173	—	11.3817
Average GBP to NOK forward rate at December 31, 2005	11.5135	11.4447	11.3542	—	11.4874
Fair value at December 31, 2005 in U.S. dollars					$ (82)

Approximately $7,688,000 of the fair value of these contracts is reflected as a current liability at December 31, 2005 based on the scheduled expiration of the foreign currency forward contracts. The remainder is included in other long-term liabilities in the Company's Consolidated Balance Sheet at December 31, 2005. The Company has recognized a pre-tax loss in 2005 of approximately $701,000, primarily through reduced revenues, in connection with the ineffectiveness of certain of the hedges in offsetting the foreign currency impact on the related anticipated foreign currency cash flows. The Company anticipates that approximately $4,371,000 of the fair value loss on these hedges reported in accumulated other comprehensive income at December 31, 2005 will be reclassified into earnings during 2006 as additional revenues are recognized on the underlying subsea contract.

Rebates

2.201

FLEETWOOD ENTERPRISES, INC. (APR)

(Amounts in thousands)	2005	2004
Accounts payable	$ 75,551	$ 98,804
Employee compensation and benefits	77,924	70,222
Product warranty reserve	65,143	53,921
Other short-term borrowings	56,661	5,738
Accrued interest	52,446	38,868
Liabilities of discontinued operations	78,357	26,581
Other current liabilities	88,635	77,954
Total current liabilities	$494,717	$372,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Dealer Volume Rebates and Sales Incentives

Estimated costs related to dealer volume rebates and sales incentives are accrued as a reduction of revenue at the time products are sold.

2) (In Part): Supplemental Financial Information

Other Current Liabilities

Other current liabilities as of April 24, 2005 and April 25, 2004, consist of the following:

(Amounts in thousands)	2005	2004
Dealer rebates	$16,261	$14,202
Accrued selling program expenses	15,710	13,467
Accrued litigation settlements	21,015	3,190
Retail customer deposits	6,345	8,325
Other	29,304	38,770
	$88,635	$77,954

Dividends

2.202

GENUINE PARTS COMPANY (DEC)

(Dollars in thousands)	2005	2004
Current liabilities		
Trade accounts payable	$ 973,615	$ 856,653
Other borrowings	881	968
Accrued compensation	99,402	96,337
Other accrued expenses	84,760	83,330
Dividends payable	54,150	52,495
Income taxes payable	36,296	42,932
Total current liabilities	$1,249,104	$1,132,715

Environmental Costs

2.203

PEABODY ENERGY CORPORATION (DEC)

(Dollars in thousands)	2005	2004
Current liabilities		
Current maturities of long-term debt	$ 22,585	$ 18,979
Liabilities from coal trading activities	132,373	63,565
Accounts payable and accrued expenses	867,965	691,600
Total current liabilities	$1,022,923	$774,144

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Liabilities

Included in "Other noncurrent liabilities" are accruals for other environmental matters that are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted. In general, costs related to environmental remediation are charged to expense.

12) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(Dollars in thousands)	2005	2004
Trade accounts payable	$348,320	$273,274
Accrued taxes other than income	111,997	98,208
Accrued payroll and related benefits	110,675	74,907
Accrued health care	78,523	84,286
Workers' compensation obligations	34,312	41,436
Other accrued benefits	21,939	17,025
Accrued royalties	50,344	23,517
Accrued environmental	23,619	15,095
Income taxes payable—Australia	23,409	1,658
Accrued interest	21,260	21,304
Other accrued expenses	43,567	40,890
Total accounts payable and accrued expenses	$867,965	$691,600

25) (In Part): Commitments and Contingencies

Environmental

The Company is subject to federal, state and local environmental laws and regulations, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA" or "Superfund"), the Superfund Amendments and Reauthorization Act of 1986, the Clean Air Act, the Clean Water Act and the Conservation and Recovery Act. Superfund and similar state laws create liability for investigation and remediation in response to releases of hazardous substances in the environment and for damages to natural resources. Under that legislation and many state Superfund statutes, joint and several liability may be imposed on waste generators, site owners and operators and others regardless of fault. These regulations could require the Company to do some or all of the following:

- remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances;
- perform remediation work at such sites; and
- pay damages for loss of use and non-use values.

Environmental claims have been asserted against Gold Fields related to activities of Gold Fields or its former affiliates. Gold Fields is a dormant, non-coal producing entity that was previously managed and owned by Hanson PLC, a predecessor owner of the Company. The Company has been named a potentially responsible party ("PRP") based on CERCLA at five sites, and claims have been asserted at 17 other sites. The number of PRP sites in and of itself is not a relevant measure of liability, because the nature and extent of environmental concerns varies by site, as does the Company's estimated share of responsibility.

The Company's policy is to accrue environmental cleanup-related costs of a non-capital nature when those costs are believed to be probable and can be reasonably estimated. The quantification of environmental exposures requires an assessment of many factors, including the nature and extent of contamination, the timing, extent and method of the remedial action changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. The Company also assesses the financial capability and proportional share of costs of other PRPs and, where allegations are based on tentative findings, the reasonableness of the Company's apportionment. The Company has not anticipated any recoveries from insurance carriers in the estimation of liabilities recorded in its consolidated balance sheets. Undiscounted liabilities for environmental cleanup-related costs for all of the sites noted above totaled $42.5 million at December 31, 2005, and $40.5 million at December 31, 2004, $23.6 million and $15.1 million of which was a current liability, respectively. These amounts represent those costs that the Company believes are probable and reasonably estimable. In September 2005, Gold Fields and other PRPs received a letter from the U.S. Department of Justice alleging that the PRPs' mining operations caused the Environmental Protection Agency ("EPA") to incur approximately $125 million in residential yard remediation costs at Picher, Oklahoma and will cause the EPA to incur additional remediation costs relating to historic mining sites. Gold Fields has participated in the ongoing settlement discussions. A predecessor of Gold Fields formerly operated two lead mills near Picher, Oklahoma prior to the 1950s and mined, in accordance with lease agreements and permits, approximately 1.5% of the total amount of the ore mined in the county. Gold Fields believes it has meritorious defenses to these claims. Gold Fields is involved in other litigation in the Picher area, and the Company has agreed to indemnify one of the defendants in this litigation as discussed under the "Oklahoma Lead Litigation" caption above.

Significant uncertainty exists as to whether claims will be pursued against Gold Fields in all cases, and where they are pursued, the amount of the eventual costs and liabilities, which could be greater or less than this provision.

Although waste substances generated by coal mining and processing are generally not regarded as hazardous substances for the purposes of Superfund and similar legislation, some products used by coal companies in operations, such as chemicals, and the disposal of these products are governed by the statute. Thus, coal mines currently or previously owned or operated by the Company, and sites to which the Company has sent waste materials, may be subject to liability under Superfund and similar state laws.

Litigation

2.204

HILLENBRAND INDUSTRIES, INC. (SEP)

(In millions)	2005	2004
Current liabilities		
Trade accounts payable	$ 98.0	$ 93.6
Short-term borrowings	6.1	11.0
Income taxes payable	5.2	0.4
Accrued compensation	59.2	85.3
Accrued litigation charge (Note 17)	358.6	—
Accrued product warranties	16.6	18.6
Accrued customer rebates	23.4	21.9
Accrued restructuring	27.8	9.0
Other	74.1	69.1
Total current liabilities	$669.0	$308.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

17 (In Part): Commitments and Contingencies

On June 30, 2003, Spartanburg Regional Healthcare System (the "Plaintiff") filed a purported antitrust class action lawsuit against Hillenbrand, Hill-Rom, Inc. and Hill-Rom Company, Inc. in the United States District Court for the District of South Carolina. As of November 7, 2005, all proceedings in the lawsuit were stayed except those relating to the parties' efforts to complete a settlement. Hillenbrand and its Hill-Rom subsidiaries have entered into a memorandum of understanding to settle the case for $337.5 million in cash. The proposed settlement also includes Hill-Rom's commitment to continue certain company initiated discounting practices for a period of three years. The proposed settlement is subject to a number of conditions, including the negotiation of a definitive settlement agreement and final Court approval of that agreement following notice to class members, which is not anticipated to occur until calendar 2006. If finally approved by the court, the settlement is expected to resolve all of the plaintiffs' claims and all potential claims of most North American purchasers or renters of Hill-Rom products from 1990 through the present related to or arising out of the subject matter of the lawsuit. While we are encouraged by progress toward a settlement, there is no assurance that the parties will reach, or, if reached, that the Court will approve, a settlement agreement.

In connection with the memorandum of understanding and our assessment that it is probable a settlement will be reached and approved, we recorded a litigation charge and established a litigation accrual in the amount of $358.6 million in the fourth quarter of fiscal 2005, which includes certain legal and other costs associated with the proposed settlement.

Plantiff's Second Amended Complaint, filed on May 9, 2005, alleged violations of the federal antitrust laws, including attempted monopolization, monopoly maintenance and tying claims. Plaintiff sought to certify a class of all purchasers of Hill-Rom® standard and/or specialty hospital beds, and/or architectural and in-room products from 1990 to the present where there have been contracts between Hill-Rom and such purchasers, either on behalf of themselves or through purchasing organizations, conditioning discounts on Hill-Rom® hospital beds and other architectural and in-room products on commitments to rent or purchase a very high percentage (e.g. ninety percent) of specialty beds from Hill-Rom. Plaintiff subsequently narrowed the definition of its proposed class to acute and subacute facilities. Plaintiff claimed that it and the alleged class sustained injury caused by Hill-Rom's discounting practices, which allegedly harmed competition and resulted in higher prices for standard and/or specialty hospital beds and/or architectural and in-room products.

Plaintiff sought actual monetary damages on behalf of the purported class in excess of $100 million, trebling of any such damages that might have been awarded, recovery of attorney fees and costs, and injunctive relief. If a final definitive settlement is not achieved, we anticipate the Plaintiff would seek damages substantially in excess of $100 million, before trebling. If a class were to be certified and if Plaintiffs were to prevail at trial, potential trebled damages awarded the Plaintiffs could be substantially in excess of $100 million and have a significant material adverse effect on our results of operations, financial condition, and liquidity. Therefore, if the proposed settlement is not consummated, we will continue to aggressively defend against Plaintiff's allegations and will continue to assert what we believe to be meritorious defenses to class certification and Plaintiff's allegations and damage theories.

Billings in Excess of Uncompleted Contract Costs

2.205

EMCOR GROUP, INC. (DEC)

(In thousands)	2005	2004
Current liabilities		
Borrowings under working capital credit line	$ —	$ 80,000
Current maturities of long-term debt and capital lease obligations	551	806
Accounts payable	452,709	467,415
Billings in excess of costs and estimated earnings on uncompleted contracts	330,235	359,667
Accrued payroll and benefits	154,276	138,771
Other accrued expenses and liabilities	107,545	115,714
Total current liabilities	$1,045,316	$1,162,373

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Revenues from long-term construction contracts are recognized on the percentage-of-completion method. Percentage-of-completion is measured principally by the percentage of costs incurred to date for each contract to the estimated total costs for such contract at completion. Certain of our electrical contracting business units measure percentage-of-completion by the percentage of labor costs incurred to date for each contract to the estimated total labor costs for such contract. Revenues from services contracts are recognized as services are provided. There are two basic types of services contracts (a) fixed price facilities services contracts which are signed in advance for maintenance, repair and retrofit work over periods typically ranging from one to three years (for which there may be our employees at the customer's site full time) and (b) services contracts which may or may not be signed in advance for similar maintenance, repair and retrofit work on an as needed basis (frequently referred to as time and material work). Fixed price services contracts are generally performed over the contract period, and, accordingly, revenue is recognized on a pro-rata basis over the life of the contract. Revenues derived from other services contracts are recognized when the services are performed in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition, revised and updated." Expenses related to all services contracts are recognized as incurred. Provisions for estimated losses on uncompleted long-term contracts are made in the period in which such losses are determined. In the case of customer change orders for uncompleted long-term construction contracts, estimated recoveries are included for work performed in forecasting ultimate profitability on certain contracts. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings in excess of billings on uncompleted contracts reflected in the consolidated balance sheets arise when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Also included in costs and estimated earnings on uncompleted contracts are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on the construction costs incurred in connection with claim amounts. Claims and unapproved change orders made by us involve negotiation and, in certain cases, litigation. In the event litigation costs are incurred by us in connection with claims or unapproved change orders, such litigation costs are expensed as incurred although we may seek to recover these costs. We believe that we have established legal bases for pursuing recovery of our recorded unapproved change orders and claims, and it is management's intention to pursue and litigate such claims, if necessary, until a decision or settlement is reached. Unapproved change orders and claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims and unapproved change orders may be made in the near-term. If we do not successfully resolve these matters, a net expense (recorded as a reduction in revenues), may be required, in addition to amounts that have been previously provided for. Claims against us are recognized when a loss is considered probable and amounts are reasonably determinable.

Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2005 and 2004 were as follows (in thousands):

	2005	2004
Costs incurred on uncompleted contracts	$8,927,230	$8,390,950
Estimated earnings	546,394	450,481
	9,473,624	8,841,431
Less: billings to date	9,618,225	8,960,382
	$ (144,601)	$ (118,951)

Such amounts were included in the accompanying Consolidated Balance Sheets at December 31, 2005 and 2004 under the following captions (in thousands):

	2005	2004
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 185,634	$ 240,716
Billings in excess of costs and estimated earnings on uncompleted contracts	(330,235)	(359,667)
	$(144,601)	$(118,951)

As of December 31, 2005 and 2004, costs and estimated earnings in excess of billings on uncompleted contracts included unbilled revenues for unapproved change orders of approximately $56.3 million and $65.4 million, respectively, and for claims of approximately $36.6 million and $53.5 million, respectively. In addition, accounts receivable as of December 31, 2005 and 2004 includes claims of approximately $4.7 million and $5.4 million, respectively, plus unapproved change orders and contractually billed amounts related to such contracts of $76.2 million and $75.5 million, respectively. Generally, contractually billed amounts will not be paid by the customer to us until final resolution of related claims. Included in the claims amount is approximately $18.2 million and $28.6 million as of December 31, 2005 and 2004, respectively, related to projects of our Poole & Kent subsidiary, which projects had commenced prior to our acquisition of Poole & Kent in 1999.

Classification of Contract Amounts

In accordance with industry practice, we classify as current all assets and liabilities related to the performance of long-term contracts. The contracting cycle for certain long-term contracts may extend beyond one year, and, accordingly, collection or payment of amounts related to these contracts may extend beyond one year. Accounts receivable at December 31, 2005 and 2004 included $209.5 million and $210.1 million, respectively, of retainage billed under terms of the contracts. We estimate that approximately 87% of retainage recorded at December 31, 2005 will be collected during 2006. Accounts payable at December 31, 2005 and 2004 included $43.1 million and $47.8 million, respectively, of retainage withheld under terms of the contracts. We estimate that approximately 85% of retainage withheld at December 31, 2005 will be paid during 2006. Specific accounts receivable are evaluated when we believe a customer may not be able to meet its financial obligations. The allowance for doubtful accounts requirements are re-evaluated and adjusted on a regular basis and as additional information is received.

Asset Retirement Obligations

2.206

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	2005	2004
Current liabilities		
Accounts payable	$ 727	$ 607
Long-term debt due within one year	308	463
Income taxes payable	473	138
Derivative liabilities	1,508	350
Accrued liabilities	915	755
Liabilities associated with assets held for sale	—	192
Total current liabilities	$3,931	$2,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Asset Retirement Obligations

An asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset is recognized as a liability in the period incurred or when it becomes determinable (as defined by the standard), with an associated increase in the carrying amount of the related long-lived asset. The cost of the tangible asset, including the asset retirement cost, is depreciated over the useful life of the asset. The company adopted the standard on January 1, 2003, which resulted in a charge to earnings of $35 million (net of an income tax benefit of $18 million) to recognize the cumulative effect of adopting the new standard.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" (FIN No. 47) to clarify that an entity must recognize a liability for the fair value of a conditional asset retirement obligation when incurred, if the liability's fair value can be reasonably estimated. Conditional asset retirement obligations under this pronouncement are legal obligations to perform asset retirement activities when the timing and/or method of settlement are conditional on a future event or may not be within the control of the entity.

FIN No. 47 also provides additional guidance for evaluating whether sufficient information to reasonably estimate the fair value of an asset retirement obligation is available. The company adopted FIN No. 47 as of December 31, 2005 with no material effect to the company's financial position or results of operations and no effect on reported cash flows.

The company accrues an ARO associated with its oil and gas wells and platforms when those assets are placed in service. The ARO is recorded at its estimated fair value and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows discounted at the company's credit-adjusted risk-free interest rate. No market-risk premium has been included in the company's calculation of ARO balances since no reliable estimate can be made by the company.

6 (In Part): Balance Sheet Data

Accrued Liabilities

Accrued liabilities at December 31, 2005 and 2004 are as follows:

(Millions of dollars)	2005	2004
Accrued operating expenses and exploration and development costs	$406	$261
Employee-related costs and benefits	165	156
Reserves for environmental remediation and restoration	90	97
Interest payable	72	97
Taxes other than income taxes	89	71
Asset retirement obligations	24	17
Other	69	56
Total	$915	$755

Asset Retirement Obligations

A summary of the changes in the ARO liability during 2005 and 2004 is included in the table below and reflects activity associated with the North Sea oil and gas business, which was sold in 2005:

(Millions of dollars)	2005	2004
Balance at January 1	$524	$421
Obligations incurred, including obligations acquired	42	30
Liability assumed in the Westport merger	—	79
Accretion expense	30	30
Changes in estimates, including timing	(32)	(16)
Abandonment expenditures	(19)	(17)
Obligations settled through divestitures	(195)	(3)
Adoption of FIN No. 47[1]	19	—
Balance at December 31	369	524
Less: asset retirement obligations associated with assets held for sale	—	(171)
Less: current asset retirement obligation	(24)	(17)
Noncurrent asset retirement obligation	$345	$336

[1] Refer to Note 1 for a discussion of FIN No. 47, "Accounting for Conditional Asset Retirement Obligations," which the company adopted effective December 31, 2005.

As discussed in Note 14, the company shut down its synthetic rutile plant in Mobile, Alabama, in 2003. In September 2004, the company shut down sulfate and gypsum production at its Savannah, Georgia, plant. Until the decisions to shut down these facilities had been made, it was indeterminable when the asset retirement liability associated with these facilities would be settled. Upon deciding to shut down the facilities, the timing of settlement became estimable and the related asset retirement obligation was recorded at the estimated fair value. For the synthetic rutile plant in Mobile, Alabama, an $18 million liability was recognized at the beginning of 2003. For the sulfate production facility at the company's Savannah, Georgia, plant, an abandonment liability of $13 million was recognized in September 2004.

Operations at the Mobile, Alabama, facility included production of feedstock for titanium dioxide pigment plants of the company's chemical business. The facility ceased feedstock production in June 2003, though it is still being used to dry ore for titanium dioxide production. Feedstock operations had resulted in minor contamination of groundwater adjacent to surface impoundments. A groundwater recovery system was installed prior to closure and continues in operation as required under the National Pollutant Discharge Elimination System (NPDES) permit. Remediation work, including groundwater recovery, closure of the impoundments and other minor work, is expected to be substantially completed five years after the facility is no longer being used to dry ore. As of December 31, 2005, the company had a remaining abandonment reserve of $17 million. Although actual costs may exceed current estimates, the amount of any increases cannot be reasonably estimated at this time.

An abandonment reserve related to the titanium dioxide pigment sulfate production at Savannah, Georgia, was established to address probable remediation activities, including environmental assessment, closure of certain impoundments, groundwater monitoring, asbestos abatement and other work, expected to take more than 25 years. As of December 31, 2005, the reserve balance was approximately $14 million. Although actual costs may exceed current estimates, the amount of any increase cannot be reasonably estimated at this time.

LONG-TERM DEBT

2.207 Table 2-28 summarizes the types of long-term debt most frequently disclosed by the survey companies.

2.208 Paragraph 10b of SFAS No. 47, *Disclosure of Long-Term Obligations*, requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the "aggregate amount of maturities and sinking fund requirements for all long-term borrowings." In addition, disclosure of terms and conditions provided in loan agreements, such as assets pledged as collateral, covenants to limit additional debt, maintain working capital, and restrict dividends, is required by paragraph 18 of SFAS No. 5, *Accounting for Contingencies*.

2.209 Paragraph 7 of *ARB 43, Chapter 3A*, as amended by SFAS No. 78, states that the current liability classification is intended to include long-term obligations that are or will be callable by the creditor either because the debtors' violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Such callable obligations shall be classified as current liabilities unless one of the following conditions is met:

a. The creditor has waived or subsequently lost the right to demand payment for more than one year (or operating cycle, if longer) from the balance sheet date.

b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

As part of long-term debt presentations there were nine disclosures of covenant violations.

2.210 *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of long-term debt unless it is not practicable to estimate the value. 495 survey companies made 656 fair value disclosures. 289 of those disclosures used market or broker quotes of long-term debt to determine fair value. 301 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Five of those disclosures estimated fair value using other valuation methods. 261 disclosures presented carrying amounts which approximated fair value of long-term debt. In addition there were 287 disclosures in which carrying value was compared to fair value in an exposition or a table. One disclosure stated it was not practicable to estimate fair value.

2.211 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.212 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.213 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts may be used to determine fair value. This Standard will be used in developing future accounting standards. No data on the use of expected cash flow approach in discounted cash flow applications were compiled.

2.214 Examples of long-term debt disclosures and presentations follow. Examples of long-term lease disclosures and presentations are presented under "Long-Term Leases" in this section.

2.215

TABLE 2-28: LONG-TERM DEBT

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Unsecured				
Notes	431	439	427	438
Debentures	152	157	168	182
Loans	79	75	78	96
Foreign	76	82	82	86
Commercial paper	44	53	59	60
Bonds	19	24	31	30
ESOP loans	15	20	26	31
Collateralized				
Capitalized leases	231	245	230	241
Notes or loans	91	97	95	88
Mortgages	51	56	50	53
Convertible				
Notes	68	76	77	76
Debentures	54	60	54	48

Unsecured

2.216

AMERADA HESS CORPORATION (DEC)

(Millions of dollars)	2005	2004
Total current liabilities	$ 6,447	$ 4,697
Long-term debt	3,759	3,785
Deferred income taxes	1,401	1,184
Asset retirement obligations	564	511
Other liabilities and deferred credits	658	538
Total liabilities	$12,829	$10,715

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Long-Term Debt

Long-term debt at December 31 consists of the following:

(Millions of dollars)	2005	2004
Revolving credit facility, weighted average rate 6.0%	$ 600	$ —
Fixed rate debentures		
5.9% due 2005	—	25
5.9% due 2006	—	51
7.4% due 2009	103	299
6.7% due 2011	662	749
7.9% due 2029	693	693
7.3% due 2031	745	745
7.1% due 2033	598	598
Total fixed rate debentures	2,801	3,160
Fixed rate notes, payable principally to insurance companies, weighted average rate 9%, due through 2014	163	446
Project lease financing, weighted average rate 5.2%, due through 2014	161	166
Pollution control revenue bonds, weighted average rate 5.9%, due through 2034	52	53
Other loans, weighted average rate 7.0%, due through 2019	8	10
	3,785	3,835
Less amount included in current maturities	26	50
Total	$3,759	$3,785

The aggregate long-term debt maturing during the next five years is as follows (in millions): 2006—$26 (included in current liabilities); 2007—$28; 2008—$30; 2009—$744 and 2010—$31.

At December 31, 2005, the Corporation's fixed rate debentures have a principal amount of $2,816 million ($2,801 million net of unamortized discount). Interest rates on the outstanding fixed rate debentures have a weighted average rate of 7.3%. During 2005, the Corporation repurchased $600 million of fixed-rate debentures and fixed rate notes at a premium of $39 million, before income taxes.

The Corporation has a $2.5 billion syndicated, revolving credit facility expiring in December 2009, which can be used for borrowings and letters of credit. At December 31, 2005, the Corporation has available capacity on the revolving credit facility of $1,872 million. Borrowings under the facility bear interest at .80% above the London Interbank Offered Rate. A facility fee of .20% per annum is payable on the amount of the credit line. The interest rate and facility fee are subject to adjustment if the Corporation's credit rating changes.

The Corporation's long-term debt agreements contain a financial covenant that restricts the amount of total borrowings and cash dividends. At December 31, 2005, the Corporation is permitted to borrow up to an additional $6.7 billion for the construction or acquisition of assets. At year-end, the amount that can be borrowed for the payment of dividends or stock repurchases is $2.5 billion. Under the Corporation's revolving credit agreement, if two stated credit rating agencies classify the Corporation's public debt below investment grade, an additional covenant becomes effective requiring that the Corporation's ratio of total consolidated debt to consolidated EBITDA, as defined, shall not exceed 3.5. The Corporation would have been in compliance with this covenant had it been in effect for the year ended December 31, 2005. This covenant shall be deleted from the credit agreement if both credit rating agencies' ratings are simultaneously investment grade.

The total amount of interest paid (net of amounts capitalized), principally on short-term and long-term debt, in 2005, 2004 and 2003 was $245 million, $243 million and $313 million, respectively. In 2005, 2004 and 2003, the Corporation capitalized interest of $80 million, $54 million and $41 million, respectively.

15 (In Part): Financial Instruments, Non-Trading and Trading Activities

Fair Value Disclosure

The Corporation estimates the fair value of its fixed-rate notes receivable and debt generally using discounted cash flow analysis based on current interest rates for instruments with similar maturities and risk profiles. Foreign currency exchange contracts are valued based on current termination values or quoted market prices of comparable contracts. The Corporation's valuation of commodity contracts considers quoted market prices where applicable. In the absence of quoted market prices, the Corporation values contracts at fair value considering time value, volatility of the underlying commodities and other factors.

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The carrying amounts of the Corporation's financial instruments and derivatives, including those used in the Corporation's non-trading and trading activities, generally approximate their fair values at December 31, 2005 and 2004, except as follows:

	2005		2004	
(Millions of dollars)	Balance Sheet Amount	Fair Value	Balance Sheet Amount	Fair Value
Fixed-rate debt	$(3,174)	$(3,675)	$(3,822)	$(4,314)

2.217

AMETEK, INC. (DEC)

(In thousands)	2005	2004
Total current liabilities	$405,792	$272,838
Long-term debt	475,309	400,177
Deferred income taxes	54,910	49,441
Other long-term liabilities	39,037	38,314

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

At December 31, 2005 and 2004, long-term debt consisted of the following:

(In thousands)	2005	2004
U.S. dollar 7.20% senior note due 2008	$225,000	$225,000
British pound 5.96% senior note due 2010	86,025	95,925
British pound floating rate term note due through 2010 (5.31% at December 31, 2005)	36,992	—
Euro 3.94% senior note due 2015	59,200	—
British pound 5.99% senior note due 2016	68,827	76,753
Accounts receivable securitization due 2006	75,000	38,000
Revolving credit loan	71,200	—
Other, principally foreign	9,195	14,442
	631,439	450,120
Less: current portion	(156,130)	(49,943)
Total long-term debt	$475,309	$400,177

Maturities of long-term debt outstanding at December 31, 2005 are as follows: $5.5 million in 2007; $230.5 million in 2008; $5.5 million in 2009; $104.4 million in 2010; $0.3 million in 2011; and $129.1 million in 2012 and thereafter.

At December 2005, the Company had outstanding a 21.5 million British pound ($37.0 million) 5.31% (London Interbank Offered Rate (LIBOR) plus .69%) floating term loan with annual installment payments due through 2010. In connection with the SPECTRO acquisition, the Company issued a 50 million euro ($59.2 million at December 31, 2005) 3.94% senior note due in 2015. In November 2004, the Company issued a 40 million British pound ($68.8 million at December 31, 2005) 5.99% senior note due in 2016. In September 2003, the Company issued a 50 million British pound ($86.0 million at December 31, 2005) 5.96% senior note due in 2010.

The Company has an accounts receivable securitization facility agreement through a wholly owned, special purpose subsidiary, and the special purpose subsidiary has a receivables sale agreement with a bank whereby it could sell to a third party up to $75.0 million of its trade accounts receivable on a revolving basis. The securitization facility is a financing vehicle utilized by the Company because it offers attractive rates relative to other financing sources. All securitized accounts receivable and related debt are reflected on the Company's consolidated balance sheet.

The special purpose subsidiary is the servicer of the accounts receivable under the securitization facility. The securitization facility expires in December 2006. The Company intends to renew the securitization facility on an annual basis. Interest rates on amounts drawn down are based on prevailing market rates for short-term commercial paper plus a program fee. The Company also pays a commitment fee on any unused commitments under the securitization facility. The Company's accounts receivable securitization is accounted for as a secured borrowing under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

At December 31, 2005 and 2004, securitized accounts receivable and the corresponding debt on the consolidated balance sheet were $75.0 million and $38.0 million, respectively. Interest expense under this facility is not significant.

The weighted average interest rate on the amount outstanding under the accounts receivable securitization during 2005 and 2004 was 4.3% and 2.0%, respectively.

The Company has an unsecured $300 million Revolving Credit Facility that matures in June 2010. The credit facility has an accordion feature that allows the Company to request up to an additional $100 million in revolving credit commitments at any time during the term of the revolving credit agreement. Interest rates on outstanding loans under the Revolving Credit Facility are either at LIBOR plus a negotiated spread over LIBOR, or at the U.S. prime rate. At December 31, 2005, the Company had an outstanding revolving credit loan of $71.2 million. At December 31, 2004, the Company had no revolving credit loan outstanding. The Company had outstanding letters of credit totaling $26.9 million and $28.5 million at December 31, 2005 and 2004, respectively. At December 31, 2005, $201.9 million was unused and available under the Revolving Credit Facility.

The Revolving Credit Facility places certain restrictions on allowable subsidiary debt. The Revolving Credit Facility also places certain restrictions on certain cash payments, including the payment of dividends. At December 31, 2005, retained earnings of approximately $36.5 million were not subject to the dividend limitation.

Foreign subsidiaries of the Company had available credit facilities with local foreign lenders of approximately $87.0 million at December 31, 2005. Foreign subsidiaries had debt outstanding at December 31, 2005 totaling $46.2 million, of which $36.3 million is reported as long-term.

The approximate weighted average interest rate on total debt outstanding at December 31, 2005 and 2004 was 6.4% and 6.2%, respectively.

14. Financial Instruments

The estimated fair values of the Company's financial instruments are compared below to the recorded amounts at December 31, 2005 and 2004. Cash, cash equivalents, and marketable securities are recorded at fair value at December 31, 2005 and 2004 in the accompanying balance sheet.

	Asset (Liability)			
	December 31, 2005		December 31, 2004	
(In thousands)	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Fixed-income investments	$ 7,323	$ 7,323	$ 6,582	$ 6,582
Short-term borrowings	$(152,678)	$(152,678)	$ (49,725)	$ (49,725)
Long-term debt (including current portion)	$(478,761)	$(490,934)	$(400,395)	$(409,980)

The fair value of fixed-income investments is based on quoted market prices. The fair value of short-term borrowings approximates the carrying value at year-end. The fair value of the Company's long-term debt, which consists primarily of publicly traded notes, is based on the quoted market price for such notes and borrowing rates currently available to the Company for loans with similar terms and maturities.

2.218

BAXTER INTERNATIONAL INC. (DEC)

(In millions)	2005	2004
Total current liabilities	$4,165	$4,286
Long-term debt and lease obligations	2,414	3,933
Other long-term liabilities	1,849	2,223

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Debt, Credit Facilities, and Commitments and Contingencies

Debt Outstanding

(In millions)	Effective Interest Rate[1]	2005[2]	2004[2]
Variable-rate loan due 2005	0.6%	$ —	$ 153
5.75% notes due 2006	6.1%	782	884
Variable-rate loan due 2007	0.7%	99	111
7.125% notes due 2007	7.2%	55	55
1.02% notes due 2007	1.0%	120	134
5.25% notes due 2007	5.6%	—	498
Variable-rate loan due 2008	4.4%	40	40
7.25% notes due 2008	7.3%	29	29
9.5% notes due 2008	9.5%	79	81
3.6% notes due 2008	4.0%	—	1,250
5.196% notes due 2008	7.3%	250	—
Variable-rate loan due 2008	2.7%	300	—
4.75% notes due 2010	4.6%	499	—
Variable-rate loan due 2010	0.5%	138	—
4.625% notes due 2015	4.8%	577	588
6.625% debentures due 2028	6.7%	157	158
Other		72	106
Total debt and capital lease obligations		3,197	4,087
Current portion		(783)	(154)
Long-term portion		$2,414	$3,933

(1) Excludes the effect of related interest rate swaps, as applicable.
(2) Book values include discounts, premiums and adjustments related to hedging instruments, as applicable.

In addition, as further discussed below, the company has short-term debt totaling $141 million at December 31, 2005 and $207 million at December 31, 2004.

Significant Debt Issuances, Repurchases and Redemptions

As discussed in Note 8, in 2005 the company repatriated approximately $2.1 billion of foreign earnings under the American Jobs Creation Act of 2004. In conjunction with the repatriation, the company issued new debt and paid down existing debt, resulting in a net reduction in the company's total debt outstanding of almost $1 billion from December 31, 2004 to December 31, 2005.

Significant Debt Issuances

In October 2005 Baxter Finco B.V., an indirectly wholly owned finance subsidiary of Baxter International Inc., issued $500 million of 4.75% five-year senior unsecured notes in a private placement under Rule 144A (including registration rights), generating net proceeds of $496 million. The notes, which are irrevocably, fully and unconditionally guaranteed by Baxter International Inc., are redeemable, in whole or in part, at Baxter Finco B.V.'s option, subject to a make-whole premium. The indenture includes certain covenants, including restrictions relating to the company's creation of secured debt, transfers of principal facilities, and sale and leaseback transactions.

In November 2005, the company drew $300 million under an existing European credit facility, which is further discussed below, and the drawdown was outstanding at December 31, 2005. This variable-rate debt is due in 2008.

Repurchase of Notes Included in Equity Units

In December 2002, the company issued equity units for $1.25 billion in an underwritten public offering. Each equity unit consisted of senior notes ($1.25 billion in total) that were scheduled to mature in February 2008, and a purchase contract. The purchase contracts obligated the holders to purchase between 35.0 and 43.4 million shares (based upon a specified exchange ratio) of Baxter common stock in February 2006 for $1.25 billion. Baxter made interest payments to the note holders at an annual rate of 3.6%, and payments to the purchase contract holders at an annual rate of 3.4%. Refer to Note 1 for a discussion of the impact of the purchase contracts on the company's EPS calculation.

As originally scheduled, in November 2005 the $1.25 billion of notes were remarketed, and the 3.6% annual interest rate was reset to 5.196%. Using a portion of the repatriation cash proceeds, management bid for, purchased and retired $1 billion of the remarketed notes. The outstanding remarketed notes mature in 2008.

In February 2006, the purchase contracts matured and Baxter issued approximately 35 million shares of Baxter common stock for $1.25 billion. Management plans to use these proceeds to pay down existing debt, for stock repurchases and for other general corporate purposes.

Redemptions

In November 2005, the company redeemed the entire approximately $500 million outstanding of its 5.25% notes, which were due in 2007. In June 2003, the company redeemed $800 million, or substantially all, of it convertible debentures, as the holders exercised their rights to put the debentures to the company.

The company incurred $17 million in costs associated with the repurchase of the notes included in the equity units and the redemption of the 5.25% notes in 2005, and $11 million in costs associated with the redemption of the convertible debentures in 2003. These costs are included in other expense, net in the accompanying consolidated statements of income.

Future Minimum Lease Payments and Debt Maturities

(In millions)	Operating Leases	Debt Maturities and Capital Leases
2006	$122	$ 783
2007	102	288
2008	82	715
2009	67	5
2010	59	641
Thereafter	93	780
Total obligations and commitments	525	3,212
Interest on capital leases, discounts and premiums, and adjustments relating to hedging instruments	n/a	(15)
Long-term debt and lease obligations	$525	$3,197

Credit Facilities

The company maintains three primary revolving credit facilities, which totaled approximately $2 billion at December 31, 2005. One of the facilities totals $640 million and matures in October 2007, another facility totals $800 million and matures in September 2009, and the third facility, which is denominated in Euros, totals approximately $600 million and matures in January 2008. The facilities enable the company to borrow funds in U.S. Dollars, Euros or Swiss Francs on an unsecured basis at variable interest rates and contain various covenants, including a maximum net-debt-to-capital ratio and a quarterly minimum interest coverage ratio. At December 31, 2005, the company was in compliance with the financial covenants in these agreements. As discussed above, in conjunction with its repatriation plan, in November 2005 the company drew $300 million under its European credit facility. The borrowings bear interest at a variable rate and are repayable at any time, in whole or in part, through the maturity date of the revolving facility. There were no other borrowings outstanding under the company's primary credit facilities at December 31, 2005.

Baxter also maintains other credit arrangements, which totaled $544 million at December 31, 2005 and $609 million at December 31, 2004. Borrowings outstanding under these facilities totaled $141 million at December 31, 2005 and $207 million at December 31, 2004.

Cash Collateral Requirements

As discussed further in Note 5, the company uses foreign currency and interest rate derivative instruments for hedging purposes. For risk management purposes, one of the company's agreements includes provisions whereby the counterparty financial institution could require that collateral be posted, and another agreement includes provisions that could cause the arrangement to be terminated under specified circumstances. The collateral and termination triggers are dependent upon the mark-to-market liability (if any) with the respective financial institutions and the company's credit ratings. No early termination clauses were triggered during the three-year period ended December 31, 2005, and no collateral was posted pursuant to these arrangements at December 31, 2005.

Note 5 (In Part): Financial Instruments and Risk Management

Book Values and Fair Values of Financial Instruments

	Book Values		Approximate Fair Values	
(In millions)	2005	2004	2005	2004
Assets				
Long-term insurance receivables	$ 69	$ 66	$ 66	$ 64
Investments at cost	20	20	20	20
Foreign currency hedges	45	61	45	61
Interest rate hedges	—	5	—	5
Cross-currency swaps	—	129	—	129
Liabilities				
Short-term debt	141	207	141	207
Current maturities of long-term debt and lease obligations	783	154	788	154
Other long-term debt and lease obligations	2,414	3,933	2,409	4,158
Foreign currency hedges	75	158	75	158
Interest rate hedges	19	12	19	12
Cross-currency swaps	645	1,301	645	1,301
Long-term litigation liabilities	93	113	89	109

The estimated fair values of insurance receivables and long-term litigation liabilities were computed by discounting the expected cash flows based on currently available information, which in many cases does not include final orders or settlement agreements. The approximate fair values of other assets and liabilities are based on quoted market prices, where available. The carrying values of all other financial instruments approximate their fair values due to the short-term maturities of these assets and liabilities.

Collateralized

2.219

BALL CORPORATION (DEC)

(In millions)	2005	2004
Total current liabilities	$1,176.0	$ 996.3
Long-term debt (Note 11)	1,473.3	1,537.7
Employee benefit obligations	784.2	734.3
Deferred taxes and other liabilities	69.5	116.4
Total liabilities	$3,503.0	$3,384.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Debt and Interest Costs

Long-term debt at December 31 consisted of the following:

	2005		2004	
(In millions)	In Local Currency	In U.S. $	In Local Currency	In U.S. $
Notes payable				
7.75% senior notes, due August 2006	$ —	$ —	$300.0	$ 300.0
6.875% senior notes, due December 2012 (excluding issue premium of $3.8 in 2005 and $4.3 in 2004)	$550.0	550.0	$550.0	550.0
Senior credit facilities				
Term A loan, British sterling denominated, due October 2011 (2005—5.502%)	£ 85.0	146.2	—	—
Term B loan, euro denominated, due October 2011 (2005—3.184%)	€350.0	414.4	—	—
Term C loan, Canadian dollar denominated, due October 2011 (2005—4.155% to 4.255%)	C$165.0	141.9	—	—
U.S. dollar multi-currency revolver borrowings, due October 2011 (2005—5.243% to 5.476%)	$ 60.0	60.0	—	—
Euro multi-currency revolver borrowings, due October 2011 (2005—3.293% to 3.305%)	€ 50.0	59.2	—	—
British sterling multi-currency revolver borrowings, due October 2011 (2005—5.495%)	£ 22.0	37.9	—	—
Canadian dollar multi-currency revolver borrowings, due October 2011 (2005—3.975% to 4.265%)	C$ 14.0	12.0	—	—
Former senior credit facilities				
Term loan A, euro denominated, due December 2007 (2004—3.93%)	—	—	€ 72.0	97.7
Term loan A, British sterling denominated, due December 2007 (2004—6.64%)	—	—	£ 47.4	90.9
Term loan B, euro denominated, due December 2009 (2004—4.18%)	—	—	$232.7	315.6
Term loan B, U.S. dollar denominated, due December 2009 (2004—4.31%)	—	—	$185.0	185.0
European bank for reconstruction and development loans				
Floating rates due June 2009 (2005— 3.727%; 2004—3.63%)	€ 20.0	23.7	€ 20.0	27.1
Industrial development revenue bonds				
Floating rates due through 2011 (2005—3.57% to 3.58%; 2004—2%)	$ 16.0	16.0	$ 24.0	24.0
Other	Various	21.6	Various	26.7
		1,482.9		1,617.0
Less: current portion of long-term debt		(9.6)		(79.3)
		$1,473.3		$1,537.7

2005

On October 13, 2005, Ball refinanced its senior secured credit facilities. The new senior secured credit facilities extend debt maturities at lower interest rate spreads and provide Ball with additional borrowing capacity for future growth. During the third and fourth quarters of 2005, Ball redeemed its 7.75% senior notes due in August 2006. The refinancing and senior note redemptions resulted in a debt refinancing charge of $19.3 million ($12.3 million after tax) for the related call premium and unamortized debt issuance costs.

The new senior credit facilities bear interest at variable rates and also include (1) a multi-currency, long-term revolving credit facility which provides the company with up to the equivalent of $715 million and (2) a Canadian long-term revolving credit-facility which provides the company with up to the equivalent of $35 million. Both revolving credit facilities expire in October 2011. At December 31, 2005, taking into account outstanding letters of credit, $547 million was available under the revolving credit facilities.

Maturities of all long-term debt obligations outstanding at December 31, 2005, are $9.5 million, $32.2 million, $75.3 million, $85.2 million and $205.7 million for the years ending December 31, 2006 through 2010, respectively, and $1,071.2 million thereafter. Ball provides letters of credit in the ordinary course of business to secure liabilities recorded in connection with industrial development revenue bonds and certain self-insurance arrangements. Letters of credit outstanding at December 31, 2005 and 2004, were $34 million and $43 million, respectively.

The notes payable and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company's domestic wholly owned subsidiaries. Certain foreign denominated tranches of the senior credit facilities are similarly guaranteed by certain of the company's wholly owned foreign subsidiaries. Note 19 contains further details as well as condensed, consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries.

The company was not in default of any loan agreement at December 31, 2005, and has met all debt payment obligations. The U.S. note agreements, bank credit agreement and industrial development revenue bond agreements contain certain restrictions relating to dividend payments, share repurchases, investments, financial ratios, guarantees and the incurrence of additional indebtedness.

2004

During the first quarter of 2004, Ball repaid €31 million ($38 million) of its previous euro denominated Term Loan B and reduced the interest rate by 50 basis points. Interest expense during the first quarter of 2004 included $0.5 million for the write off of the unamortized financing costs associated with the repaid loans.

2003

On August 8, 2003, Ball refinanced 8.25% Senior Subordinated Notes due in 2008 through the placement of $250 million of 6.875% Senior Notes due in 2012 issued at a price of 102% (effective yield to maturity of 6.58 percent). In connection with the refinancing of the higher interest debt, in the third quarter of 2003 a pretax charge of $15.2 million was recorded as interest expense, which consisted of the payment of a $10.3 million call premium and the write off of $4.9 million of unamortized financing costs. During the fourth quarter of 2003, Ball repaid $160 million of its previous U.S. dollar denominated Term Loan B and €25 million of the euro denominated Term Loan B. At the time of the early repayment, the interest rate on the U.S. portion of the Term Loan B was reduced by 50 basis points. Interest expense during the fourth quarter of 2003 included $2.9 million for the write off of the unamortized financing costs associated with the repaid loans.

A summary of total interest cost paid and accrued follows:

(In millions)	2005	2004	2003
Interest costs before refinancing costs	$102.4	$105.8	$129.0
Debt refinancing costs	19.3	—	15.2
Total interest costs	121.7	105.8	144.2
Amounts capitalized	(5.3)	(2.1)	(3.1)
Interest expense	$116.4	$103.7	$141.1
Interest paid during the year[a]	$138.5	$102.6	$139.2

[a] Includes $6.6 million and $10.3 million of call premiums in 2005 and 2003, respectively, paid in connection with the redemption of the company's senior and senior subordinated notes.

16 (In Part): Financial Instruments and Risk Management

Interest Rate Risk (In Part)

The fair value of all non-derivative financial instruments approximates their carrying amounts with the exception of long-term debt. Rates currently available to the company for loans with similar terms and maturities are used to estimate the fair value of long-term debt based on discounted cash flows. The fair value of derivatives generally reflects the estimated amounts that we would pay or receive upon termination of the contracts at December 31, 2005, taking into account any unrealized gains and losses on open contracts.

	2005		2004	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	$1,482.9	$1,496.6	$1,617.0	$1,673.8
Unrealized loss on derivative contracts	—	(0.1)	—	—

2.220

HARTMARX CORPORATION (NOV)

(In thousands)	2005	2004
Total current liabilities	$98,843	$98,584
Non-current liabilities	25,730	25,402
Long-term debt	94,781	76,353
Accrued pension liability	29,445	26,416

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Fair Value of Financial Instruments (In Part)

Financial instruments consist primarily of cash, accounts receivable, accounts payable and long-term debt. The carrying amounts of cash, accounts receivable and accounts payable approximate fair value due to their short-term nature. The carrying amount of debt and credit facilities approximate fair value due to their stated interest rate approximating a market rate. These estimated fair value amounts have been determined using available market information or other appropriate valuation methodologies.

The following methods and assumptions were used in estimating the fair value of financial instruments:

Long-Term Debt

The market value of debt at November 30, 2005, of which a major portion is variable rate debt, approximates its carrying value of $119.5 million, based on the terms, interest rates and maturities currently available for similar debt instruments.

Concentrations of Credit Risk and Financial Instruments (In Part)

The Company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of borrowings under its Credit Facility, which bear interest at variable rates. The variable rates may fluctuate over time based on economic conditions, and the Company could be subject to increased interest payments if market interest rates rise. In the last three years, the Company has not used derivative financial instruments to manage interest rate risk.

Financing

At November 30, 2005 and 2004, long term debt was comprised of the following (000's omitted):

	2005	2004
Borrowings under credit facility	$ 85,089	$ 66,930
Industrial development bonds	17,250	17,250
Mortgages and other debt	17,174	17,852
Total debt	119,513	102,032
Less-current	24,732	25,679
Long term debt	$ 94,781	$ 76,353

Effective August 30, 2002, the Company entered into a new $200 million senior revolving credit facility ("Credit Facility") replacing a $200 million facility scheduled to mature in June 2003. Pursuant to an amendment dated January 3, 2005, and effective January 1, 2005, the Credit Facility was amended, extending its original term by three years, to February 28, 2009; the Company retained its option to extend the term for an additional year, to February 28, 2010. The Company paid $.4 million to the lender group related to the January 2005 amendment to the Credit Facility. The Credit Facility provides for a $50 million letter of credit subfacility. Interest rates under the Credit Facility are based on a spread in excess of LIBOR or prime as the benchmark rate and on the level of excess availability. The weighted average interest rate was approximately 5.9% at November 30, 2005, based on LIBOR and prime rate loans. The Credit Facility provides for an unused commitment fee of .375% per annum based on the $200 million maximum less the outstanding borrowings and letters of credit issued. Eligible receivables and inventories provide the principal collateral for the borrowings, along with certain other tangible and intangible assets of the Company.

The Credit Facility includes various events of default and contains certain restrictions on the operation of the business, including covenants pertaining to minimum net worth, operating leases, incurrence or existence of additional indebtedness and liens, asset sales and limitations on dividends, as well as other customary covenants, representations and warranties, and events of default. During fiscal 2005 and as of November 30, 2005, the Company was in compliance with all covenants under the Credit Facility and its other borrowing agreements. At November 30, 2005, the Company had approximately $26 million of letters of credit outstanding, relating to either contractual commitments for the purchase of inventories from unrelated third parties or for such matters as workers' compensation requirements in lieu of cash deposits. Such letters of credit are issued pursuant to the Company's Credit Facility and are considered as usage for purposes of determining borrowing availability. During fiscal 2005, additional availability levels ranged from $43 million to $102 million. At November 30, 2005, additional borrowing availability under the Credit Facility was approximately $85 million.

Industrial development bonds ("IDBs"), which mature on varying dates through 2015, were issued by development authorities for the purchase or construction of various manufacturing facilities having a carrying value of $5.6 million at November 30, 2005. Interest rates on the various borrowing agreements range from 7.25% to 8.5% (average of 7.4% at November 30, 2005 and 2004). Two IDBs totaling $15.5 million are callable by the Company at par effective as of July 1, 2003.

Mortgages and other debt includes $14.7 million remaining principal amount of mortgages on two of its owned manufacturing facilities, which mature in 2011 and 2016. Also included in mortgages and other debt is the Company's ongoing guarantee of a $2.5 million industrial development bond retained by a former subsidiary, due September 1, 2007, on which the annual interest rate of 8.5% is paid semi-annually and there is no collateral. Interest rates ranged from 7.5% to 8.5% per annum (average of 7.7% at November 30, 2005 and 2004).

Accrued interest, included in the Other Accrued Expenses caption in the accompanying Consolidated Balance Sheet, was $.7 million at both November 30, 2005 and 2004.

The approximate principal reductions during the next five fiscal years are as follows: $24.7 million in 2006, $5.0 million in 2007, $.9 million in 2008, $62.0 million in 2009 and $1.0 million in 2010. The $24.7 million of principal reductions in 2006 reflects $.7 million of required payments and $24.0 million representing the Company's estimate of additional debt reduction during fiscal 2006.

On January 21, 2003, the Company retired the remaining $10.3 million face value of the then outstanding 12.5% senior unsecured notes. This early retirement resulted in a fiscal 2003 first quarter pre-tax charge of $.8 million related to the write-off of the remaining unamortized debt discount and issue costs and is reflected in the Refinancing Expense caption in the accompanying Consolidated Statement of Earnings.

Borrowings Under Principal Credit Facility

The following summarizes information concerning borrowings under the Company's revolving credit facility in place during the applicable periods, all of which were variable rate borrowings (000's omitted):

	2005	2004	2003
Outstanding at November 30	$ 85,089	$ 66,930	$ 68,674
Maximum month end balance during the year	110,481	108,424	128,558
Average amount outstanding during the year	75,609	73,876	89,570
Weighted daily average interest rate during the year	5.0%	3.8%	3.8%
Weighted average interest rate on borrowings at November 30	5.9%	4.4%	3.5%

Convertible

2.221

HALLIBURTON COMPANY (DEC)

(Millions of dollars)	2005	2004
Total current liabilities	$4,437	$ 7,132
Long-term debt	2,813	3,593
Employee compensation and benefits	718	635
Other liabilities	525	464
Total liabilities	$8,493	$11,824

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Debt

Short-term notes payable consist primarily of overdraft and other facilities with varying rates of interest. Long-term debt at December 31, 2005 and 2004 consisted of the following:

(Millions of dollars)	2005	2004
3.125% convertible senior notes due July 2023	$1,200	$1,200
5.5% senior notes due October 2010	748	748
Medium-term notes due 2006 thru 2027	600	600
7.6% debentures of Halliburton due August 2096	294	294
8.75% debentures due February 2021	200	200
0.75% plus three-month LIBOR senior notes repaid in April 2005	—	500
1.5% plus three-month LIBOR senior notes repaid in October 2005	—	300
Other	132	98
Total long-term debt	3,174	3,940
Less current portion	361	347
Noncurrent portion of long-term debt	$2,813	$3,593

Convertible Notes

In June 2003, we issued $1.2 billion of 3.125% convertible senior notes due July 15, 2023, with interest payable semiannually. The notes are our senior unsecured obligations ranking equally with all of our existing and future senior unsecured indebtedness.

The notes are convertible under any of the following circumstances:

- during any calendar quarter if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous quarter is greater than or equal to 120% of the conversion price per share of our common stock on such last trading day. This circumstance was achieved in the third and fourth quarters of 2005. There were no conversions of these notes as of February 15, 2006;
- if the notes have been called for redemption;
- upon the occurrence of specified corporate transactions that are described in the indenture relating to the offering; or
- during any period in which the credit ratings assigned to the notes by both Moody's Investors Service and Standard & Poor's are lower than Ba1 and BB+, respectively, or the notes are no longer rated by at least one of these rating services or their successors.

The initial conversion price is $37.65 per share and is subject to adjustment upon the occurrence of stock dividends in common stock, the issuance of rights or warrants, stock splits and combinations, the distribution of indebtedness, securities, or assets, or excess cash distributions.

Upon conversion, we must settle the principal amount of the notes in cash, and for any amounts in excess of the aggregate principal we have the right to deliver shares of our common stock, cash, or a combination of cash and common stock.

See Note 16 for discussion of supplemental indenture on these notes.

The notes are redeemable for cash at our option on or after July 15, 2008. Holders may require us to repurchase the notes for cash on July 15 of 2008, 2013, or 2018 or, prior to July 15, 2008, in the event of a fundamental change as defined in the underlying indenture.

Note 16 (In Part): Income (Loss) Per Share

Basic income (loss) per share is based on the weighted average number of common shares outstanding during the period and, effective January 1, 2005, includes the 59.5 million shares that were contributed to the trusts established for the benefit of asbestos claimants. Diluted income (loss) per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. A reconciliation of the number of shares used for the basic and diluted income (loss) per share calculation is as follows:

(Millions of shares)	2005	2004	2003
Basic weighted average common shares outstanding	505	437	434
Dilutive effect of:			
Stock options	5	2	2
Convertible senior notes premium	8	—	—
Restricted stock	1	1	—
Other	—	1	1
Diluted weighted average common shares outstanding	519	441	437

In December 2004, we entered into a supplemental indenture that requires us to satisfy our conversion obligation for our convertible senior notes in cash, rather than in common stock, for at least the aggregate principal amount of the notes. This reduced the resulting potential earnings dilution to only include the conversion premium, which is the difference between the conversion price per share of common stock and the average share price. See the table above for the dilutive effect for 2005. The conversion price of $37.65 per share of common stock was greater than our average share price in 2004 and 2003 and, consequently, did not result in dilution.

Note 17 (In Part): Financial Instruments and Risk Management

Interest Rate Risk

We have several debt instruments outstanding that have both fixed and variable interest rates. We manage our ratio of fixed-rate to variable-rate debt through the use of different types of debt instruments and derivative instruments. As of December 31, 2005, we held no material interest rate derivative instruments.

Fair Market Value of Financial Instruments

The estimated fair market value of long-term debt was $2.9 billion at December 31, 2005 and $3.7 billion at December 31, 2004, as compared to the carrying amount of $3.2 billion at December 31, 2005 and $3.9 billion at December 31, 2004. The fair market value of fixed-rate long-term debt is based on quoted market prices for those or similar instruments. The carrying amount of variable-rate long-term debt approximates fair market value because these instruments reflect market changes to interest rates. The carrying amount of short-term financial instruments, cash and equivalents, receivables, short-term notes payable, and accounts payable, as reflected in the consolidated balance sheets, approximates fair market value due to the short maturities of these instruments. The currency derivative instruments are carried on the balance sheet at fair value and are based upon third-party quotes.

Debt Covenant Violation

2.222

STANDARD MOTOR PRODUCTS, INC. (DEC)

(Dollars in thousands)	2005	2004
Total current liabilities	$285,922	$252,456
Long-term debt	98,549	114,236
Post-retirement medical benefits and other accrued liabilities	45,962	44,111
Restructuring accrual	11,348	12,394
Accrued asbestos liabilities	25,556	26,060
Total liabilities	$467,337	$449,257

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Credit Facilities and Long-Term Debt

Total debt consists of (in thousands):

	2005	2004
Current		
Revolving credit facilities[1]	$149,236	$109,416
Current portion of mortgage loan	542	534
	149,778	109,950
Long-term debt		
6.75% convertible subordinated debentures	90,000	90,000
Unsecured promissory note	—	15,125
Mortgage loan	8,912	9,381
Other	179	264
Less current portion of long-term debt	542	534
	98,549	114,236
Total debt	$248,327	$224,186

[1] Consists of the revolving credit facility, the Canadian term loan and the European revolving credit facility.

Maturities of long-term debt during the five years ending December 31, 2006 through 2010 are $0.5 million, $0.6 million, $0.5 million $90.5 million and $0.6 million, respectively.

The Company had deferred financing cost of $4.5 million and $5.2 million as of December 31, 2005 and 2004, respectively. These costs related to the Company's revolving credit facility, the convertible subordinated debentures and a mortgage loan agreement, and these costs are being amortized over three to eight years.

Revolving Credit Facility

Effective April 27, 2001, we entered into an agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. The term of the credit agreement was for a period of five years and provided for a line of credit up to $225 million.

Effective June 30, 2003, in connection with our acquisition of DEM, we amended and restated our credit agreement with General Electric Capital Corporation to provide for an additional $80 million commitment. This additional commitment increases the total amount available for borrowing under the revolving credit facility to $305 million from $225 million, and extends the term of the credit agreement from 2006 to 2008. Availability under our revolving credit facility is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. After taking into effect outstanding borrowings under the revolving credit facility, there was an additional $52.5 million available for us to borrow pursuant to the formula at December 31, 2005. Our credit agreement also permits dividends and distributions by us provided specific conditions are met.

At December 31, 2005 and 2004, the interest rate on the Company's revolving credit facility was 6.7% and 4.4%, respectively. Direct borrowings under our revolving credit facility bear interest at the prime rate plus the applicable margin (as defined) or the LIBOR rate plus the applicable margin (as defined), at our option. Outstanding borrowings under the revolving credit facility, classified as current liabilities, were $142.3 million and $103.6 million at December 31, 2005 and 2004, respectively. The Company maintains cash management systems in compliance with its credit agreements. Such systems require the establishment of lock boxes linked to blocked accounts whereby cash receipts are channeled to various banks to insure paydown of debt. Agreements also classify such accounts and the cash therein as additional security for loans and other obligations to the credit providers. Borrowings are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of our domestic and Canadian subsidiaries. The terms of our revolving credit facility provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months) through 2008, and (2) to limit capital expenditure levels for each fiscal year through 2008. At March 31, 2005, we were not in compliance with the fixed charge coverage ratio contained in our revolving credit facility and, at September 30, 2005, we were not in compliance with a covenant contained in our revolving credit facility relating to the limitation on redemption of drafts prior to the maturity date thereof under our customer draft programs. We received waivers of compliance of such covenants for the applicable periods.

During 2005, we amended our revolving credit facility on three occasions to provide, among other things, for the following: (1) borrowings of the Company are no longer collateralized by the assets, including accounts receivable, inventory and fixed assets, of our Canadian subsidiary; (2) the specified levels of fixed charge coverage has been modified for 2005 and thereafter; (3) our Canadian subsidiary was released from its obligations under a guaranty and security agreement; (4) the Company's pledge of stock of its Canadian subsidiary to the lenders was reduced from a 100% to a 65% pledge of stock; (5) the removal of the limit on our ability to redeem the current drafts prior to the maturity date; and (6) the prohibition of accepting drafts under our customer draft programs after November 18, 2005.

In December 2005, we further amended our revolving credit facility to provide, among other things, for the following: (1) the lenders' consent to the Company's repurchase of shares of Company common stock held by Dana Corporation and the Company's prepayment of an unsecured promissory note held by Dana; (2) the lenders' consent for a $7 million term loan issued to the Company's Canadian subsidiary by affiliates of the lenders; and (3) the extension of the termination date of our revolving credit facility from February 7, 2008 to December 31, 2008.

CREDIT AGREEMENTS

2.223 As shown in Table 2-29, many of the survey companies disclosed the existence of loan commitments from the banks or insurance companies for future loans. Examples of such loan commitment disclosures follow:

2.224

TABLE 2-29: CREDIT AGREEMENTS

	2005	2004	2003	2002
Disclosing credit agreements	534	533	533	540
Not disclosing credit agreements	66	67	67	60
Total Companies	**600**	**600**	**600**	**600**

2.225

CTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Debt

Long-term debt was comprised of the following at December 31:

($ in thousands)	2005	2004
Revolving credit agreement, average interest rate of 6.1% (2005) and 4.2% (2004) due in 2007	$ 2,080	$ 9,150
Convertible, senior subordinated debentures at a weighted-average rate of 2.1%, due in 2024	60,000	60,000
Convertible, subordinated debentures at a weighted-averaged rate of 6.5%, due in 2007	5,500	25,000
Term loan, interest 5.8%, due in 2011	875	—
Other debt, weighted-average rate of 10.1%, due 2006	2	—
	68,457	94,150
Less current maturities	164	—
Total long-term debt	$68,293	$94,150

The debt matures as follows: 2006—$0.2 million; 2007—$7.7 million, 2008—$0.2 million, 2009—$0.2 million, 2010—$0.2 million, thereafter—$60.0 million

CTS has a $75 million senior, secured revolving credit agreement that had an outstanding balance of $2.1 million at December 31, 2005. Any outstanding balances under the revolving credit agreement are senior to CTS' convertible debentures. The revolving credit agreement is collateralized by substantially all U.S. assets and a pledge of 65% of the capital stock of certain non-U.S. subsidiaries. Interest rates on the revolving credit agreement fluctuate based upon LIBOR. CTS pays a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on performance under certain financial covenants and was 0.38 percent per annum at December 31, 2005. The revolving credit agreement requires, among other things, that CTS comply with minimum fixed charge coverage, maximum leverage ratio, and minimum tangible net worth covenants. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. Additionally, the revolving credit agreement limits the amounts allowed for dividends, capital expenditures, and acquisitions. The revolving credit agreement expires in July 2007.

2.226

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

19. Short-Term Borrowings and Capital Lease Obligations

	2005	2004
Commercial paper	$ —	$584
Other loans-various currencies	383	156
Long-term debt payable within one year	986	167
Industrial development bonds	26	26
Capital lease obligations	2	3
	$1,397	$936

The estimated fair value of the company's Short-Term borrowings, including interest rate financial instruments, based on quoted market prices for the same or similar issues, or on current rates offered to the company for debt of the same remaining maturities, was $1,400 and $900 at December 31, 2005 and 2004, respectively. The change in estimated fair value in 2005 was due to an increase in Short-Term debt, primarily subsidiary borrowings due within one year, and increase in current portion of long-term debt.

Unused Short-Term bank credit lines were approximately $3,500 and $3,300 at December 31, 2005 and 2004, respectively. These lines support Short-Term borrowings.

The weighted average interest rate on Short-Term borrowings outstanding at December 31, 2005 and 2004, was 4.8 percent and 3.5 percent, respectively.

2.227

KERR-MCGEE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Debt

As discussed in Note 3, in November 2005, the company completed the IPO of Tronox Class A common stock. In March 2006, the Board of Directors approved the Distribution of Kerr-McGee's remaining ownership interest in Tronox, which is expected to be completed before the end of the first quarter of 2006. Concurrent with the IPO, Tronox, through its wholly-owned subsidiaries, borrowed $550 million and entered into a senior secured credit agreement.

Lines of Credit

The following presents a summary of revolving credit facilities that served as a source of liquidity in 2005 and those that are currently in effect. No borrowings were outstanding under the revolving credit agreements at December 31, 2005. Available capacity under the credit agreements presented below reflects capacity utilization in support of outstanding letters of credit.

Revolving Credit Facility	Term (Years)	Period Effective	Period Terminated	Available Capacity at December 31, 2005
Kerr-McGee Corporation				
$1.5 billion unsecured facility	5	November 2004	May 2005	—
$1.25 billion senior secured facility(1)	5	May 2005	January 2006	$1.18 billion
$1.25 billion unsecured facility(2)	5	January 2006	Facility currently in effect	—
Tronox Incorporated				
$250 million senior secured facility(3)	5	November 2005	Facility currently in effect	$216 million

(1) The $1.25 billion secured credit facility was available to the company under the $5.5 billion credit agreement, which also included $4.25 billion in term loan facilities. As discussed below, the term loans were repaid in 2005.

(2) Available capacity under this facility was $1.18 billion as of February 28, 2006, reflecting capacity utilization in support of outstanding letters of credit.

(3) In November 2005, Tronox Incorporated and certain of its wholly-owned subsidiaries entered into a $450 million senior secured credit agreement which provides for a six-year term loan facility of $200 million (which was fully drawn at the time of the IPO) and a $250 million five-year multicurrency revolving credit facility.

The company has arrangements to maintain compensating balances with certain banks that provide credit. At year-end 2005, the aggregate amount of such compensating balances was not material, and the company was not legally restricted from withdrawing all or a portion of such balances at any time during the year.

$1.25 Billion Unsecured Revolving Credit Agreement (Effective January 2006)

The facility is available to provide support for commercial paper and for general corporate purposes. Interest on amounts borrowed under the credit agreement is payable, at the company's election, at an alternate base rate (ABR) or a Eurodollar rate, in each case as defined in the credit agreement. The initial margin applicable to Eurodollar borrowings is 125 basis points and may vary from 50 to 150 basis points depending on the company's credit rating.

The terms of the revolving credit agreement provide for customary representations and warranties, affirmative and negative covenants, and events of default. The company also is required to maintain compliance with the following financial covenants (in each case, as defined in the agreement):

- Consolidated Leverage Ratio of no more than 3.5:1
- Consolidated Interest Coverage Ratio over a specified period of at least 3:1
- Asset Coverage Ratio of more than 1.75:1 so long as the company's corporate credit rating is below investment grade

During 2005, the company was subject to covenants specified in credit agreements in effect at that time and was in compliance with all such covenants. Compliance with the covenants under the $1.25 billion revolving credit agreement entered into in January 2006 will be determined starting with the first quarter of 2006. Management expects the company to be in compliance with such covenants.

Tronox's $450 Million Senior Secured Credit Agreement

In November 2005, Tronox entered into a senior secured credit facility consisting of a $200 million six-year term loan facility and a five-year multicurrency revolving credit facility of $250 million. Interest on amounts borrowed under the Tronox credit agreement is payable, at Tronox's election, at a base rate or a LIBOR rate, in each case as defined in the Tronox credit agreement. The initial margin applicable to LIBOR borrowings is 175 basis points and may vary from 100 to 200 basis points depending on Tronox's credit rating.

The terms of the Tronox credit agreement provide for customary representations and warranties, affirmative and negative covenants, and events of default. Tronox is also required to maintain compliance with the following financial covenants beginning in 2006 (in each case, as defined in the agreement):

- Consolidated Total Leverage Ratio of no more than 3.75:1
- Consolidated Interest Coverage Ratio of at least 2:1
- Limitation on Capital Expenditures

Tronox Incorporated and certain of its subsidiaries have guaranteed the obligations under the Tronox credit agreement and have granted a security interest in specified assets including property and equipment, inventory and accounts receivable.

2.228

SAFEWAY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Financing

Notes and debentures were composed of the following at year-end (in millions):

	2005	2004
Commercial paper	$ —	$ 105.0
Bank credit agreement, unsecured	47.5	—
Other bank borrowing, unsecured	6.5	18.2
Mortgage notes payable, secured	22.4	26.1
9.30% Senior Secured Debentures due 2007	24.3	24.3
2.50% Senior Notes due 2005, unsecured	—	200.0
Floating Rate Senior Notes due 2005, unsecured	—	150.0
3.80% Senior Notes due 2005, unsecured	—	225.0
6.15% Senior Notes due 2006, unsecured	700.0	700.0
4.80% Senior Notes due 2007, unsecured	480.0	480.0
7.00% Senior Notes due 2007, unsecured	250.0	250.0
4.125% Senior Notes due 2008, unsecured	300.0	300.0
4.45% Senior Notes due 2008, unsecured	259.7	—
6.50% Senior Notes due 2008, unsecured	250.0	250.0
7.50% Senior Notes due 2009, unsecured	500.0	500.0
4.95% Senior Notes due 2010, unsecured	500.0	500.0
6.50% Senior Notes due 2011, unsecured	500.0	500.0
5.80% Senior Notes due 2012, unsecured	800.0	800.0
5.625% Senior Notes due 2014, unsecured	250.0	250.0
7.45% Senior Debentures due 2027, unsecured	150.0	150.0
7.25% Senior Debentures due 2031, unsecured	600.0	600.0
9.875% Senior Subordinated Debentures due 2007, unsecured	24.2	24.2
Other notes payable, unsecured	10.8	13.8
Less current maturities	5.675.4	6,066.6
	(714.2)	(596.9)
Long-term portion	$4,961.2	$5,469.7

Commercial Paper

The amount of commercial paper borrowings is limited to the unused borrowing capacity under the bank credit agreement. Commercial paper is classified as long term because the Company intends to and has the ability to refinance these borrowings on a long-term basis through either continued commercial paper borrowings or utilization of the bank credit agreement, which matures in 2010. The weighted average interest rate on commercial paper borrowings during the year was 3.51%.

Bank Credit Agreement

On June 1, 2005, the Company entered into a $1,600.0 million credit agreement (the "Credit Agreement") with a syndicate of banks. The Credit Agreement provides (1) to Safeway a $1,350.0 million five-year revolving credit facility (the "Domestic Facility"), (2) to Safeway and Canada Safeway Limited ("CSL") a Canadian facility of up to $250.0 million for U.S. Dollar and Canadian Dollar advances and (3) to Safeway a $400.0 million subfacility of the Domestic Facility for issuance of standby and commercial letters of credit. The Credit Agreement also provides for an increase in the credit facility commitments up to an additional $500.0 million, subject to the satisfaction of certain conditions. The restrictive covenants of the Credit Agreement limit Safeway with respect to, among other things, creating liens upon its assets and disposing of material amounts of assets other than in the ordinary course of business. Additionally, the Company is required to maintain a minimum Adjusted EBITDA, as defined in the Credit Agreement, to interest expense ratio of 2.0 to 1 and not exceed an Adjusted Debt (total consolidated debt less cash and cash equivalents in excess of $75.0 million) to Adjusted EBITDA ratio of 3.5 to 1. As of December 31, 2005, the Company was in compliance with the covenant requirements. The Credit Agreement is scheduled to expire on June 1, 2010; it replaced the former credit agreement that was scheduled to expire in 2006. As of December 31, 2005, outstanding borrowings and letters of credit were $47.5 million and $38.4 million, respectively, under this agreement. Total unused borrowing capacity under the Credit Agreement was $1,514.1 million as of December 31, 2005.

U.S. borrowings under the bank credit agreement carry interest at one of the following rates selected by the Company: (1) the prime rate; (2) a rate based on rates at which Eurodollar deposits are offered to first-class banks by the lenders in the bank credit agreement plus a pricing margin based on the Company's debt rating or interest coverage ratio (the "Pricing Margin"); or (3) rates quoted at the discretion of the lenders. Canadian borrowings denominated in U.S. dollars carry interest at one of the following rates selected by the Company: (a) the Canadian base rate; or (b) the Canadian Eurodollar rate plus the Pricing Margin. Canadian borrowings denominated in Canadian dollars carry interest at one of the following rates selected by the Company: (1) the Canadian prime rate or (2) the rate for Canadian bankers acceptances plus the Pricing Margin.

During 2005, the Company paid facility fees ranging from 0.11% to 0.145% on the total amount of the former credit facility until it expired on May 31, 2005. Starting June 1, 2005, the Company paid facility fees of 0.10% under the new Credit Agreement.

Annual Debt Maturities

As of year-end 2005, annual debt maturities were as follows (in millions):

2006	$ 714.2
2007	785.4
2008	813.5
2009	502.4
2010	549.2
Thereafter	2,310.7
	$5,675.4

Letters of Credit

The Company had letters of credit of $69.2 million outstanding at year-end 2005, of which $38.4 million were issued under the bank credit agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company. The Company pays commissions ranging from 0.15% to 1.00% on the face amount of the letters of credit.

LONG-TERM LEASES

2.229 Standards for reporting leases on the financial statements of lessees and lessors are set forth in SFAS No. 13, *Accounting for Leases*, and in subsequently issued amendments and interpretations of *SFAS No. 13*.

2.230 Table 2-30, in addition to summarizing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. 65 survey companies reported lessor leases.

2.231 Examples of long-term lease presentations and disclosures follow.

2.232

TABLE 2-30: LONG-TERM LEASES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Information Disclosed as to Capitalized Leases				
Minimum lease payments	154	148	131	122
Imputed interest	81	85	79	85
Leased assets by major classifications	45	29	30	43
Executory costs	2	6	8	7
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	572	556	564	563
Sublease	58	65	63	59
Contingent	44	46	52	53
Minimum rental payments				
Schedule of	565	554	547	543
Classified by major categories of property	8	6	10	11
Number of Companies				
Noncapitalized leases only	317	316	327	331
Capitalized and noncapitalized leases	261	258	242	236
Capitalized leases only	5	9	6	4
No leases disclosed	17	17	25	29
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

2.233

CHEVRON CORPORATION (DEC)

(Millions of dollars)	2005	2004
Total current liabilities	$25,011	$18,795
Long-term debt	11,807	10,217
Capital lease obligations	324	239
Deferred credits and other noncurrent obligations	10,507	7,942
Noncurrent deferred income taxes	11,262	7,268
Reserves for employee benefit plans	4,046	3,345
Minority interests	200	172
Total liabilities	$63,157	$47,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

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

Properties, Plant and Equipment (In Part)

Depreciation and depletion expenses for coal assets are determined using the unit-of-production method as the proved reserves are produced. The capitalized costs of all other plant and equipment are depreciated or amortized over their estimated useful lives. In general, the declining-balance method is used to depreciate plant and equipment in the United States; the straight-line method generally is used to depreciate international plant and equipment and to amortize all capitalized leased assets.

Note 10. Lease Commitments

Certain noncancelable leases are classified as capital leases, and the leased assets are included as part of "Properties, plant and equipment, at cost." Such leasing arrangements involve tanker charters, crude oil production and processing equipment, service stations, and other facilities. Other leases are classified as operating leases and are not capitalized. The payments on such leases are recorded as expense. Details of the capitalized leased assets are as follows:

	2005	2004
Exploration and production	$ 442	$ 277
Refining, marketing and transportation	837	842
Total	1,279	1,119
Less: Accumulated amortization	745	690
Net capitalized leased assets	$ 534	$ 429

Rental expenses incurred for operating leases during 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Minimum rentals	$2,102	$2,093	$1, 567
Contingent rentals	6	7	3
Total	2,108	2,100	1,570
Less: Sublease rental income	43	40	48
Net rental expense	$2,065	$2,060	$1,522

Contingent rentals are based on factors other than the passage of time, principally sales volumes at leased service stations. Certain leases include escalation clauses for adjusting rentals to reflect changes in price indices, renewal options ranging up to 25 years, and options to purchase the leased property during or at the end of the initial or renewal lease period for the fair market value or other specified amount at that time.

At December 31, 2005, the estimated future minimum lease payments (net of noncancelable sublease rentals) under operating and capital leases, which at inception had a noncancelable term of more than one year, were as follows:

	Operating Leases	Capital Leases
Year: 2006	$ 507	$106
2007	444	87
2008	401	76
2009	349	77
2010	284	58
Thereafter	932	564
Total	$2,917	$968
Less: Amounts representing interest and executory costs		(277)
Net present values		691
Less: Capital lease obligations included in short-term debt		(367)
Long-term capital lease obligations		$324

2.234

FOSTER WHEELER LTD. (DEC)

(In thousands of dollars)	2005	2004
Current liabilities		
Current installments on long-term debt	$ 21,459	$ 35,214
Accounts payable	233,815	288,899
Accrued expenses	300,457	314,529
Billings in excess of costs and estimated earnings on uncompleted contracts	410,676	559,881
Income taxes	31,157	53,058
Total current liabilities	997,564	1,251,581
Long-term debt	293,953	534,859
Deferred income taxes	37,406	7,948
Pension, postretirement and other employee benefits	269,147	271,851
Asbestos-related liability	466,163	447,400
Other long-term liabilities	141,107	139,113
Deferred accrued interest on subordinated deferrable interest debentures	2,697	23,460
Minority interest	27,827	27,052
Total liabilities	$2,235,864	$2,703,264

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

7 (In Part): Long-Term Debt

The following table shows the components of long-term debt:

	2005			2004		
	Current	Long-Term	Total	Current	Long-Term	Total
Senior notes at 10.359% interest, due September 15, 2011 (including unamortized premium of $3,847 and $10,172, respectively)	$ —	$115,315	$115,315	$ —	$271,643	$271,643
Senior notes at 6.75% interest, due November 15, 2005	—	—	—	11,372	—	11,372
Convertible subordinated notes at 6.50% interest, due June 1, 2007	—	3,070	3,070	—	3,070	3,070
Subordinated Robbins facility exit funding obligations:						
1999C bonds at 7.25% interest, due October 15, 2009	16	52	68	14	69	83
1999C bonds at 7.25% interest, due October 15, 2024	—	20,491	20,491	—	20,491	20,491
1999D bonds at 7% interest, due October 15, 2009	—	250	250	—	233	233
Subordinated deferrable interest debentures	—	5,963	5,963	—	71,177	71,177
Special-purpose project debt:						
Martinez Cogen Limited Partnership	7,980	—	7,980	7,280	7,980	15,260
Foster Wheeler Coque Verde, L.P.	3,293	28,858	32,151	2,975	32,151	35,126
Camden County Energy Recovery Associates	9,149	50,787	59,936	8,959	59,936	68,895
Capital lease obligations	1,021	63,219	64,240	990	66,297	67,287
Other	—	5,948	5,948	3,624	1,812	5,436
Total	$21,459	$293,953	$315,412	$35,214	$534,859	$570,073

Capital Leases

We entered into a series of capital leases; primarily for office buildings. Assets under capital leases are summarized as follows:

	2005	2004
Buildings and improvements	$42,461	$45,306
Less: accumulated amortization	(6,855)	(5,222)
Net assets under capital leases	$35,606	$40,084

The following are the minimum lease payments to be made in each of the years indicated for the capital leases in effect as of December 30, 2005:

Fiscal Year	
2006	$ 7,840
2007	7,588
2008	7,819
2009	8,153
2010	8,227
Thereafter	115,189
Less: interest	(90,576)
Net minimum lease payments under capital leases	64,240
Less: current portion of net minimum lease payments	(1,021)
Long-term portion of net minimum lease payments	$ 63,219

2.235

GOODRICH CORPORATION (DEC)

(Dollars in millions)	2005	2004
Current liabilities		
Short-term debt	$ 22.3	$ 1.0
Accounts payable	534.1	509.5
Accrued expenses	764.9	727.6
Income taxes payable	284.4	294.4
Deferred income taxes	7.2	22.0
Current maturities of long-term debt and capital lease obligations	1.7	2.4
Liabilities from discontinued operations	—	4.0
Total current liabilities	$1,614.6	$1,560.9
Long-term debt and capital lease obligations	1,742.1	1,899.4
Pension obligations	844.2	761.7
Postretirement benefits other than pensions	300.0	302.7
Deferred income taxes	42.1	33.7
Other non-current liabilities	438.0	316.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Financing Arrangements

Long-Term Debt (In Part)

At December 31, long-term debt and capital lease obligations, excluding the current maturities of long-term debt and capital lease obligations, consisted of:

(Dollars in millions)	2005	2004
Medium-term notes payable	$ 672.1	$ 673.2
6.45% senior notes, maturing in 2007	—	181.5
7.5% senior notes, maturing in 2008	294.0	296.6
6.6% senior notes, maturing in 2009	213.5	217.5
7.625% senior notes, maturing in 2012	498.8	498.6
Other debt, maturing through 2020 (interest rates from 2.8% to 5.3%)	55.3	22.8
	1,733.7	1,890.2
Capital lease obligation (Note 15)	8.4	9.2
Total	$1,742.1	$1,899.4

Aggregate maturities of long-term debt, exclusive of capital lease obligations, during the five years subsequent to December 31, 2005, are as follows (in millions): 2006—$0.6 (classified as current maturities of long-term debt); 2007—$0.6; 2008—$368.9; 2009—$214.2; and 2010—$35.5.

Industrial Development Revenue Bonds

On August 1, 2004, the Company redeemed $60 million principal amount of Special Facilities Airport Revenue Bonds and in May 2004 redeemed $5.9 million principal amount of industrial revenue bonds. The Company recorded $1.8 million of debt premiums and associated costs in Other Income (Expense)—Net related to the redemption of the bonds.

Note 15. Lease Commitments

The Company finances its use of certain of its office and manufacturing facilities and machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions. Certain of these arrangements allow the Company to claim a deduction for tax depreciation on the assets, rather than the lessor, and allow the Company to lease aircraft having a maximum unamortized value of $55 million at December 31, 2005. At December 31, 2005, $19.5 million of future minimum lease payments were outstanding under these arrangements. The other arrangements of $142.2 million are standard operating leases. The future minimum lease payments from continuing operations, by year and in the aggregate, under capital leases and under noncancelable operating leases with initial or remaining noncancelable lease terms in excess of one year, consisted of the following at December 31, 2005:

(Dollars in millions)	Capital Leases	Noncancelable Operating Leases
2006	$ 1.3	$ 39.9
2007	1.3	32.8
2008	1.2	24.4
2009	1.1	18.9
2010	1.0	21.1
Thereafter	10.1	24.6
Total minimum payments	16.0	$161.7
Amounts representing interest	(6.6)	
Present value of net minimum lease payments	9.4	
Current portion of capital lease obligations	(1.0)	
	$ 8.4	

Net rent expense from continuing operations consisted of the following:

(Dollars in millions)	2005	2004	2003
Minimum rentals	$48.7	$45.4	$46.8
Contingent rentals	1.6	1.6	0.3
Sublease rentals	(0.3)	(0.5)	(0.4)
Total	$50.0	$46.5	$46.7

In December 2005, the Company terminated a production equipment lease that was maturing in January 2006 and purchased the leased assets for $26.2 million.

At December 31, 2005, the Company had guarantees of residual values on lease obligations of $24.8 million related to corporate aircraft. The Company is obligated to either purchase or remarket the leased corporate aircraft at the end of the lease term. The residual values were established at lease inception. The lease terms mature in 2011 and 2012.

Lessee—Operating Leases

2.236

ARKANSAS BEST CORPORATION (DEC)

($ thousands)	2005	2004
Total current liabilities	$264,372	$230,606
Long-term debt, less current portion	1,433	1,430
Fair value of interest rate swap	—	873
Other liabilities	59,265	67,571
Deferred income taxes	37,251	37,870
Future minimum rental commitments, net(2005—$45,156; 2004—$45,763)	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Operating Leases and Commitments

Rental expense amounted to approximately $13.9 million in 2005 and $13.2 million in both 2004 and 2003.

The Company's primary subsidiary, ABF, maintains ownership of most of its larger terminals or distribution centers. ABF leases certain terminal facilities, and Clipper leases its office facilities.

The future minimum rental commitments, net of future minimum rentals to be received under noncancelable subleases, as of December 31, 2005 for all noncancelable operating leases are as follows:

($ thousands)	Total	Terminals	Equipment and Other
2006	$12,196	$10,918	$1,278
2007	9,343	8,910	433
2008	6,906	6,906	—
2009	5,500	5,500	—
2010	4,291	4,291	—
Thereafter	6,920	6,920	—
	$45,156	$43,445	$1,711

Certain of the leases are renewable for substantially the same rentals for varying periods. Future minimum rentals to be received under noncancelable subleases totaled approximately $1.0 million at December 31, 2005.

2.237

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Leases

The Company has various lease agreements for offices, branches, factories, distribution and service facilities, certain Company-operated bowling centers and certain personal property. The longest of these obligations extends through 2032. Most leases contain renewal options, some contain purchase options or escalation clauses, and many provide for contingent rentals based on percentages of gross revenue.

No leases contain restrictions on the Company's activities concerning dividends, additional debt or further leasing. Rent expense consisted of the following:

(In millions)	2005	2004	2003
Basic expense	$48.1	$54.1	$48.0
Contingent expense	2.3	2.1	1.7
Sublease income	(1.6)	(0.9)	(1.5)
Rent expense, net	$48.8	$55.3	$48.2

Future minimum rental payments at December 31, 2005, under agreements classified as operating leases with noncancelable terms in excess of one year, were as follows:

(In millions)	
2006	$ 43.5
2007	34.4
2008	27.5
2009	20.7
2010	16.7
Thereafter	59.4
Total (not reduced by minimum sublease rentals of $1.3)	$202.2

2.238

GATEWAY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Commitments, Contingencies and Concentrations

Commitments

Gateway leases certain operating facilities and equipment under noncancelable operating leases expiring at various dates through 2010. Rent expense excluding closed facilities under restructuring plans was approximately $3 million, $11 million, and $42 million for 2005, 2004 and 2003, respectively. Gateway also subleases certain closed facilities.

Gateway has entered into licensing and royalty agreements that allow it to use certain hardware and software intellectual properties in its products. Total royalty expense in many cases is based on the number of units sold and actual amounts to be paid will be greater than the minimum amount stated in the table below.

Future minimum lease expense and sublease income under terms of noncancelable operating lease and sublease agreements, including lease and sublease amounts associated with closed facilities which are included in restructuring liabilities, and minimum royalty expense under royalty agreements as of December 31, 2005 are as follows (in thousands):

Years Ending December 31	Lease Obligations	Sublease Income	Net Leases	Royalty Agreements
2006	$ 24,378	$14,306	$10,071	$24,189
2007	24,044	13,798	10,246	6,525
2008	22,364	12,476	9,888	7,152
2009	18,066	12,758	5,307	7,152
2010	16,371	13,157	3,214	7,152
Thereafter	18,435	16,276	2,158	10,078
Total	$123,658	$82,774	$40,884	$62,248

Certain of Gateway's operating lease commitments have been accrued for in connection with its restructuring actions. See Note 14 for further information.

14. Restructuring and Other Special Charges

Gateway recorded $13 million in net restructuring, transformation and integration charges during 2005. A summary of such charges and the status of all restructuring plans with remaining accrued and unpaid balances follow.

First Quarter 2004 Plan ("Q1 2004 Plan")

During the first quarter of 2004, Gateway approved a restructuring plan to, among other things, close its remaining 188 retail stores, reduce its workforce and consolidate facilities. Charges of $19 million in selling, general and administrative expenses were recorded in 2005, relating to this plan. Adjustments of $7 million and $2 million were recorded in 2005 primarily related to better than expected recovery on Gateway retail store lease buyouts and changes in certain health care expense assumptions, respectively. The following table summarizes the status of the Q1 2004 Plan as of December 31, 2005 (in millions):

	Accrued December 31, 2004	Charges	Cash Settlements	Non-Cash Settlements	Adjustments	Accrued December 31, 2005
Employee severance	$ 5	$ 1	$ (4)	$ —	$(2)	$—
Facilities/capital/operating assets	46	18	(25)	(17)	(7)	15
Contract termination fees	7	—	(7)	—	—	—
Total	$58	$19	$(36)	$(17)	$(9)	$15

Prior Restructuring Plans

Gateway adopted restructuring plans in 2003, 2002 and 2001 to, among other things, reduce its workforce and close certain facilities, including a first quarter 2003 plan to close 76 retail stores. Approximately $6 million related to lease liabilities was paid during 2005. Adjustments related to better than expected recovery on facility sales, further asset write-downs and changes in certain health care assumptions were recorded during 2005. The following table summarizes the status of these restructuring plans as of December 31, 2005 (in millions):

	Accrued December 31, 2004	Cash Settlements	Adjustments	Accrued December 31, 2005
Employee severance	$ 2	$—	$(2)	$—
Facilities/capital assets	19	(6)	(2)	11
Total	$21	$ (6)	$(4)	$11

Approximate future cash outlays for all restructuring plans, representing primarily lease liabilities on closed facilities, are expected to be $26 million (approximately $6.2 million on a net basis after including anticipated sublease recoveries and asset dispositions).

The following table outlines the anticipated future cash outlays, including amounts included in the lease payment tables provided in Note 5, associated with all restructuring plans (in thousands):

Years Ending December 31	
2006	$ 3,399
2007	(6,893)
2008	3,463
2009	2,668
2010	2,323
Thereafter	1,258
Total accrued restructuring liability	$ 6,218

Lessor Leases

2.239

THE BOEING COMPANY (DEC)

(Dollars in millions)	2005	2004
Assets		
Cash and cash equivalents	$ 5,412	$ 3,204
Short-term investments	554	319
Accounts receivable, net	5,246	4,653
Current portion of customer financing, net	367	616
Deferred income taxes	2,449	1,991
Inventories, net of advances and progress billings	7,940	6,508
Assets of discontinued operations		70
Total current assets	21,968	17,361
Customer financing, net	9,639	10,385
Property, plant and equipment, net	8,420	8,443
Goodwill	1,924	1,948
Other acquired intangibles, net	875	955
Prepaid pension expense	13,251	12,588
Deferred income taxes	140	154
Investments	2,852	3,050
Other assets, net of accumulated amortization of $204 and $142	989	1,340
Total assets	$60,058	$56,224
Liabilities		
Accounts payable and other liabilities	$16,513	$14,869
Advances and billings in excess of related costs	9,930	6,384
Income taxes payable	556	522
Short-term debt and current portion of long-term debt	1,189	1,321
Total current liabilities	28,188	23,096
Deferred income taxes	2,067	1,090
Accrued retiree health care	5,989	5,959
Accrued pension plan liability	2,948	3,169
Deferred lease income	269	745
Long-term debt	9,538	10,879

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Revenue Recognition (In Part)

Sales-Type/Finance Leases

At lease inception, we record an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased equipment and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of leased equipment. Actual residual values realized could differ from these estimates. Write-downs of estimated residual value are recognized as permanent impairments in the current period cost of services.

Operating Leases

Revenue on leased aircraft and equipment representing rental fees and financing charges is recorded on a straight-line basis over the term of the lease. Operating lease assets, included in Customer financing, are recorded at cost and depreciated over the longer of the term of the lease or projected economic life of the asset, on a straight-line basis, to an estimated residual or salvage value. We periodically review our estimates of residual value on initial leases. We record forecasted decreases in residual value by prospectively adjusting depreciation expense.

Aircraft Valuation (In Part)

Asset Valuation for Assets Under Operating Lease, Assets Held for Sale or Re-Lease and Collateral Underlying Receivables

Included in Customer financing are operating lease equipment, notes receivables and sales-type/financing leases. Sales-type/financing leases are treated as receivables, and allowances are established in accordance with SFAS No. 13, *Accounting for Leases* and SFAS No. 118, *Accounting by Creditors for Impairment of a Loan, as amended.*

We assess the fair value of the assets we own, including equipment under operating leases, assets held for sale or re-lease and collateral underlying receivables, to determine if their fair values are less than the related assets' carrying values. Differences between carrying values and fair values of finance leases and notes and other receivables, as determined by collateral value, are considered in determining the allowances for losses on receivables.

We use a median calculated from published collateral values from multiple external equipment appraisers based on the type and age of the aircraft to determine the fair value of aircraft. Under certain circumstances, we apply judgment based on the attributes of the specific aircraft or equipment, usually when the features or use of the aircraft vary significantly from the more generic aircraft attributes covered by outside publications.

Impairment Review for Assets Under Operating Leases and Held for Sale or Re-Lease

We evaluate assets under operating lease or held for re-lease for impairment when the expected undiscounted cash flow over the remaining useful life is less than the carrying value. We use various assumptions when determining the expected undiscounted cash flow. These assumptions include expected future lease rates, lease terms, end of economic life value of the aircraft or equipment, periods in which the asset may be held in preparation for a follow-on lease, maintenance costs, remarketing costs, the remaining economic life of the asset and estimated proceeds from future asset sales. We state assets held for sale at the lower of carrying value or fair value less costs to sell.

When we determine that impairment is indicated for an asset, the amount of asset impairment expense recorded is the excess of the carrying value over the fair value of the asset.

Note 10. Customer Financing

Customer financing at December 31 consisted of the following:

	2005	2004
Aircraft financing		
Notes receivable	$ 2,292	$ 2,155
Investment in sales-type/finance leases	3,036	3,799
Operating lease equipment, at cost, less accumulated depreciation of $881 and $823	4,617	5,112
Other equipment financing		
Notes receivable	33	44
Operating lease equipment, at cost, less accumulated depreciation of $106 and $72	302	294
Less allowance for losses on receivables	(274)	(403)
	$10,006	$11,001

The components of investment in sales-type/finance leases at December 31 were as follows:

	2005	2004
Minimum lease payments receivable	$ 4,778	$ 5,998
Estimated residual value of leased assets	690	833
Unearned income	(2,432)	(3,032)
	$ 3,036	$ 3,799

Interest rates on fixed-rate notes ranged from 5.99% to 10.60%, and interest rates on variable-rate notes ranged from 4.57% to 10.59%.

Aircraft financing operating lease equipment primarily includes new and used jet and commuter aircraft. At December 31, 2005 and 2004, aircraft financing operating lease equipment included $11 and $73 of equipment available for re-lease. At December 31, 2005 and 2004, we had firm lease commitments for $6 and $25 of this equipment.

Impaired receivables and the allowance for losses on those receivables consisted of the following at December 31:

	2005	2004
Impaired receivables with no specific impairment allowance	$1,008	$1,053
Impaired receivables with specific impairment allowance	503	1,179
Allowance for losses on impaired receivables	51	295

The average recorded investment in impaired receivables as of December 31, 2005, 2004 and 2003, was $1,196, $1,940, and $1,688, respectively. Income recognition is generally suspended for receivables at the date when full recovery of income and principal becomes doubtful. Income recognition is resumed when receivables become contractually current and performance is demonstrated by the customer. Interest income recognized on such receivables during the period in which they were considered impaired was $90, $118, and $106 for the years ended December 31, 2005, 2004 and 2003, respectively.

The change in the allowance for losses on receivables for the years ended December 31, 2005, 2004 and 2003, consisted of the following:

	Allowance for Losses
Beginning balance—January 1, 2003	$(301)
Charge to costs and expenses	(214)
Reduction in customer financing assets	111
Ending balance—December 31, 2003	(404)
Charge to costs and expenses	(45)
Reduction in customer financing assets	46
Ending balance—December 31, 2004	$(403)
Charge to costs and expenses	(73)
Reduction in customer financing assets	202
Ending balance—December 31, 2005	$(274)

During 2005, BCC recorded charges related to customer financing-related asset impairment charges of $33 as a result of declines in market values and projected future rents for aircraft and equipment. During 2004, we recorded charges related to customer financing activities of $42 in operating earnings, which included impairment charges of $29 ($27 recorded by BCC). During 2003, we recorded charges related to customer financing activities of $105 in operating earnings ($100 recorded by BCC).

Aircraft financing is collateralized by security in the related asset; we have not experienced problems in accessing such collateral. However, the value of the collateral is closely tied to commercial airline performance and may be subject to reduced valuation with market decline. Our financing portfolio has a concentration of 757, 717 and MD-11 aircraft that have valuation exposure. Notes receivable, sales-type/finance leases and operating lease equipment attributable to aircraft financing at December 31 were as follows:

	2005	2004
757 Aircraft ($958 and $475 accounted for as operating leases)	$1,245	$1,457
717 Aircraft ($621 and $596 accounted for as operating leases)	2,490	2,308
MD-11 Aircraft ($580 and $687 accounted for as operating leases)	672	833

As of December 31, 2005, the following customers have filed for bankruptcy protection or requested lease or loan restructurings:

	Aircraft Financing		Percentage of Portfolio	
	2005	2004	2005	2004
United Airlines (United)*	$1,080	$1,131	11%	10%
ATA Holdings Corp. (ATA)	253	705	3%	6%
Hawaiian Airlines, Inc.*	432	456	4%	4%
Viacao Aerea Rio-Grandense	348	481	3%	4%
Northwest Airlines, Inc. (Northwest)	494	295	5%	3%
Delta Airlines, Inc. (Delta)	118	146	1%	1%

*Customer has emerged from bankruptcy.

Amounts related to these customers are believed to be fully collectible and are not expected to have a material adverse impact on our earnings, cash flows and/or financial position.

In addition to the customers listed above, some other customers have requested a restructuring of their transactions. BCC has not reached agreement on any other restructuring requests that we believe would have a material adverse effect on our earnings, cash flows and/or financial position.

Scheduled payments on customer financing are as follows:

	Principal Payments on Notes Receivable	Sales-Type/ Finance Lease Payments Receivable	Operating Lease Equipment Payments Receivable
2006	$ 232	$ 367	$ 500
2007	230	429	433
2008	368	317	373
2009	160	297	308
2010	172	284	263
Beyond 2010	1,163	3,084	1,267

Customer financing assets we leased under capital leases and have been subleased to others totaled $200 and $298 at December 31, 2005 and 2004.

Note 13 (In Part): Accounts Payable and Other Liabilities

Accounts payable and other liabilities at December 31 consisted of the following:

	2005	2004
Accounts payable	$ 5,124	$ 4,563
Accrued compensation and employee benefit costs	4,165	3,360
Legal, environmental, and other contingencies	1,792	1,774
Other accrued insurance liability	801	666
Forward loss recognition	1,114	1,218
Pension liabilities	649	744
Product warranty liabilities	781	781
Lease and other deposits	431	362
Dividends payable	241	210
Deferred income and guarantee residual values	207	195
Accrued interest	194	285
Other	1,014	711
	$16,513	$14,869

Note 15. Deferred Lease Income

During 2003 and 2004, we delivered a total of five 767 aircraft to a joint venture named TRM Aircraft Leasing Co. Ltd (TRM), which was established in order to provide financing and arrange for such aircraft to be leased to Japan Airlines. We provided financing of approximately $42 related to the five aircraft, which in combination with an expense sharing arrangement with TRM, caused us to retain substantial risk of ownership in the aircraft. As a result, we accounted for the transaction as operating leases each with a term of seven years and were recognizing rental income over the term of the lease. As of December 31, 2004, the present value of the remaining deferred lease income was $379, discounted at a rate of 5.0%.

During April 2005, we received full repayment for the financing arrangement from TRM. Additionally, we signed an agreement to eliminate any ongoing obligations for TRM's expenses effective April 28, 2005. As a result, during the second quarter of 2005, we were able to recognize the remaining deferred lease income of $369 and repayment for the financing arrangement of $42 as Revenue and charged the remaining net asset value to Cost of services. This transaction resulted in earnings before income taxes of $63 for the year ended December 31, 2005.

During 2001, we delivered four C-17 transport aircraft to the United Kingdom Royal Air Force (UKRAF), which were accounted for as operating leases. The lease term is seven years, at the end of which the UKRAF has the right to purchase the aircraft for a stipulated value, continue the lease for two additional years or return the aircraft. Concurrent with the negotiation of this lease, we, along with UKRAF, arranged to assign the contractual lease payments to an independent financial institution. We received proceeds from the financial institution in consideration of the assignment of the future lease receivables from the UKRAF. The assignment of lease receivables is non-recourse to us. The initial proceeds represented the present value of the assigned total lease receivables discounted at a rate of 6.6%. As of December 31, 2005 and 2004, the balance of $269 and $366 represented the present value of the remaining deferred lease income.

2.240

XEROX CORPORATION (DEC)

(In millions)	2005	2004
Cash and cash equivalents	$ 1,322	$ 3,218
Short-term investments	244	—
Total cash, cash equivalents and short-term investments	1,566	3,218
Accounts receivable, net	2,037	2,076
Billed portion of finance receivables, net	296	377
Finance receivables, net	2,604	2,932
Inventories	1,201	1,143
Other current assets	1,032	1,182
Total current assets	8,736	10,928
Finance receivables due after one year, net	4,949	5,188
Equipment on operating leases, net	431	398
Land, buildings and equipment, net	1,627	1,759
Investments in affiliates, at equity	782	845
Intangible assets, net	289	324
Goodwill	1,671	1,848
Deferred tax assets, long-term	1,547	1,521
Other long-term assets	1,921	2,073
Total assets	$21,953	$24,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

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

Summary of Accounting Policies (In Part)

Revenue Recognition

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

Equipment

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

Revenue Recognition for Leases

Our accounting for leases involves specific determinations under SFAS No. 13, which often involve complex provisions and significant judgments. The two primary criteria of SFAS No. 13 which we use to classify transactions as sales-type or operating leases are (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Our sales-type lease portfolios contain only normal credit and collection risks and have no important uncertainties with respect to future costs. Our leases in our Latin America operations have historically been recorded as operating leases, given the cancellability of the contract or because the recoverability of the lease investment is deemed not to be predictable at lease inception.

The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases have original terms longer than five years. There is no significant after-market for our used equipment. We believe that five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values are established at lease inception using estimates of fair value at the end of the lease term. Our residual values are established with due consideration to forecasted supply and demand for our various products, product retirement and future product launch plans, end-of-lease customer behavior, remanufacturing strategies, competition and technological changes.

The vast majority of our leases that qualify as sales-type are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. A portion of our business involves sales to governmental units. Governmental units are those entities that have statutorily defined funding or annual budgets that are determined by their legislative bodies.

Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependant on fiscal funding outside of a governmental unit's control, 2) those that can be cancelled if deemed in the best interest of the governmental unit's taxpayers or 3) those that must be renewed each fiscal year, given limitations that may exist on entering into multi-year contracts that are imposed by statute. In these circumstances, we carefully evaluate these contracts to assess whether cancellation is remote because of the existence of substantive economic penalties upon cancellation or whether the renewal is reasonably assured due to the existence of a bargain renewal option. The evaluation of a lease agreement with a renewal option includes an assessment as to whether the renewal is reasonably assured based on the intent of such governmental unit and pricing terms as compared to those of short-term leases at lease inception. We further ensure that the contract provisions described above are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancelable and account for it as an operating lease.

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

Revenue Recognition Under Bundled Arrangements

We sell most of our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements typically also include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). The minimum contractual committed page volumes are typically negotiated to equal the customer's estimated page volume at lease inception. In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair-value elements of the contract. Contingent payments, if any, are inherently uncertain and therefore are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract.

Revenues under bundled arrangements are allocated considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement based upon the estimated relative fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of the supplies and non-maintenance services. Our revenue allocation for the lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. The remaining amounts are allocated to the equipment and financing elements. We perform extensive analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must be reasonably consistent with the lease selling prices, taking into account residual values that accrue to our benefit, in order for us to determine that such lease prices are indicative of fair value. Our pricing interest rates, which are used to determine customer lease payments, are developed based upon a variety of factors including local prevailing rates in the market place and the customer's credit history, industry and credit class. Effective in 2004, our pricing rates are reassessed quarterly based on changes in local prevailing rates in the marketplace and are adjusted to the extent such rates vary by twenty-five basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated residual value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Notes 5 and 6 for further discussion.

Note 4 Receivables, Net

Finance Receivables

Finance receivables result from installment arrangements and sales-type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net at December 31, 2005 and 2004 were as follows (in millions):

	2005	2004
Gross receivables	$ 9,449	$10,267
Unearned income	(1,458)	(1,619)
Unguaranteed residual values	87	125
Allowance for doubtful accounts	(229)	(276)
Finance receivables, net	7,849	8,497
Less: Billed portion of finance receivables, net	(296)	(377)
Current portion of finance receivables not billed, net	(2,604)	(2,932)
Amounts due after one year, net	$ 4,949	$ 5,188

Contractual maturities of our gross finance receivables subsequent to December 31, 2005 were as follows (including those already billed of $296) (in millions):

2006	2007	2008	2009	2010	Thereafter	Total
$3,633	$2,590	$1,812	$1,004	$371	$39	$9,449

Secured Funding Arrangements

GE Secured Borrowings: We have an agreement in the U.S. (the "Loan Agreement") under which GE Vendor Financial Services, a subsidiary of GE, is our primary third-party equipment financing provider, through the funding of loans secured by new lease originations. The maximum potential level of borrowing under the Loan Agreement is a function of the size of the portfolio of finance receivables generated by us that meet GE's funding requirements and cannot exceed $5 billion in any event. In October 2005, we renegotiated the Loan Agreement, resulting in a reduction in applicable interest rates and the elimination of the monthly borrowing requirement. The interest rate reduction is applicable to existing and new loans.

Under this agreement, GE funds a significant portion of new U.S. lease originations at over-collateralization rates, which vary over time, but are expected to approximate 10% at the inception of each funding. The secured loans are subject to interest rates calculated at each loan funding at yield rates consistent with average rates for similar market-based transactions as well as our current debt ratings. New lease originations, including the bundled service and supply elements, are transferred to a wholly owned consolidated subsidiary which receives funding from GE.

The funds received under this agreement are recorded as secured borrowings and together with the associated lease receivables are included in our Consolidated Balance Sheet. We and GE intend the transfers of the lease contracts to be "true sales at law" and that the wholly owned consolidated subsidiary be bankruptcy remote and have received opinions to that effect from outside legal counsel. As a result, the transferred receivables are not available to satisfy any of our other obligations. GE's funding commitment is not subject to our credit ratings. There are no credit rating defaults that could impair future funding under this agreement. This agreement contains cross-default provisions related to certain financial covenants contained in the 2003 Credit Facility and other significant debt facilities. Any cross-default would impair our ability to receive subsequent funding until the default was cured or waived but does not accelerate previous borrowings except in the case of bankruptcy. However, in the event of a default, we could be replaced as the maintenance service provider for the associated equipment under lease.

We have similar long-term lease funding arrangements with GE in both the U.K. and Canada. These agreements contain similar terms and conditions as those contained in the U.S. Loan Agreement with respect to funding conditions and covenants. The final funding date for all facilities is currently December 2010.

France Secured Borrowings

In July 2003, we securitized $443 of receivables in France using a three-year public secured financing arrangement. The funds received in connection with this agreement were recorded as secured borrowings. In September 2005, we repaid the remaining balance associated with this arrangement of $47. We also have an ongoing warehouse financing facility in France with Merrill Lynch to fund new lease originations. In October 2005, we amended this agreement resulting in an increase in the size of the facility from €350 million to €420 million ($414 to $497 as of December 31, 2005), lower applicable interest rates and an extension for an additional two years at our option from the current expiration date of July 2007.

The DLL Secured Borrowings

In 2002, we formed a joint venture with De Lage Landen Bank ("the DLL Joint Venture") which became our primary equipment financing provider for new lease originations in the Netherlands through fundings from De Lage Landen Bank. In 2003, the DLL Joint Venture was expanded to include the leasing operations in Belgium and Spain. Our DLL Joint Venture is consolidated, as we are deemed to be the primary beneficiary of the Joint Venture's financial results. In September 2005, we completed a transaction with our DLL Joint Venture to purchase De Lage Landen Bank's 51% ownership interest in the Belgium and Spain leasing operations. In connection with the purchase, the secured borrowings from De Lage Landen Bank to these operations of $120 were repaid and the related finance receivables are no longer encumbered. Other than the repayment of the secured debt, the effects from this transaction were immaterial.

The following table shows finance receivables and related secured debt as of December 31, 2005 and 2004:

			2005		2004	
(In millions, unless otherwise indicated)	Facility Amount	Maximum Facility Amount(1)	Finance Receivables	Secured Debt	Finance Receivables	Secured Debt
Finance receivables encumbered by loans						
GE secured loans						
GE loans—U.S	$5 billion	$8 billion	$1,888	$1,701	$2,711	$2,486
GE loans—U.K.	£400 million (U.S. $690)	£600 million (U.S. $1.0 billion)	637	581	771	685
GE loan—Canada	Cdn. $850 million (U.S. $730)	Cdn. $2 billion (U.S. $1.7 billion)	258	174	486	426
Total GE encumbered finance receivables, net			2,783	2,456	3,968	3,597
Merrill Lynch loan—France	€420 million (U.S. $497)	€420 million (U.S. $497)	430	342	368	287
Asset-backed notes—France	N/A	N/A	—	—	225	148
DLL—Netherlands	N/A	N/A	216	184	436	404
Total encumbered finance receivables, net			3,429	$2,982	4,997	$4,436
Unencumbered finance receivables, net			4,420		3,500	
Total finance receivables, net(2)			$7,849		$8,497	

(1) Subject to mutual agreement by the parties.

(2) Includes (i) billed portion of finance receivables, net (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in the Consolidated Balance Sheets as of December 31, 2005 and 2004.

As of December 31, 2005, $3,429 of Finance receivables, net are held as collateral in various entities, as security for the borrowings noted above. Total outstanding debt secured by these receivables at December 31, 2005 was $2,982. The entities are consolidated in our financial statements. Although the transferred assets are included in our total assets, the assets of the entities are not available to satisfy any of our other obligations. We also have arrangements in Germany, Italy, the Nordic countries, Brazil and Mexico in which third-party financial institutions originate lease contracts directly with our customers. In these transactions, we sell and transfer title of the equipment to these financial institutions and have no continuing ownership rights in the leased equipment subsequent to its sale.

Accounts Receivable Funding Arrangement

In 2004, we completed a transaction with GE for a three-year $400 revolving credit facility secured by our U.S. accounts receivable. This arrangement is being accounted for as a secured borrowing within our Consolidated Balance Sheets. Secured accounts receivables and related debt associated with this arrangement as of December 31, 2005 and 2004 were as follows (in millions):

	2005	2004
Secured accounts receivable, net	$313	$354
Secured debt	$178	$200

Note 5. Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2005 and 2004 were as follows (in millions):

	2005	2004
Finished goods	$ 956	$ 895
Work-in-process	99	65
Raw materials	146	183
Total inventories	$1,201	$1,143

Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non-cash adjustment. We recorded $56, $73 and $78 in inventory write-down charges for the years ended December 31, 2005, 2004 and 2003, respectively. Equipment on operating leases and the related accumulated depreciation at December 31, 2005 and 2004 were as follows (in millions):

	2005	2004
Equipment on operating leases	$1,262	$1,649
Less: accumulated depreciation	(831)	(1,251)
Equipment on operating leases, net	$ 431	$ 398

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense was $205, $210 and $271 for the years ended December 31, 2005, 2004 and 2003, respectively. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are (in millions):

2006	2007	2008	2009	2010	Thereafter
$386	$212	$130	$60	$27	$4

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2005, 2004 and 2003 amounted to $136, $137 and $235, respectively.

OTHER NONCURRENT LIABILITIES

2.241 In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee liabilities, estimated losses or expenses, and deferred credits. Table 2-31 summarizes the nature of such noncurrent liabilities and deferred credits. Examples of presentations and disclosures for noncurrent liabilities and deferred credits follow.

2.242

TABLE 2-31: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Deferred income taxes	406	409	376	370
Minority interest	173	159	146	160
Derivatives	70	76	95	93
Preferred stock	17	20	38	41
Liabilities of nonhomogeneous operations	6	4	4	6
Employee Liabilities				
Pension accruals	253	231	233	220
Benefits	217	209	209	221
Deferred compensation, bonus, etc.	67	68	64	55
Other—described	22	17	15	17
Estimated Losses or Expenses				
Discontinued operations	78	77	54	54
Environmental	74	62	63	67
Insurance	46	44	24	38
Litigation	31	28	19	17
Warranties	29	29	22	22
Asset retirement obligations	28	23	19	4
Other—described	79	74	40	91
Deferred Credits				
Payments received prior to rendering service	67	52	58	34
Deferred profits on sales	26	28	26	34
Other—described	10	11	12	10

Deferred Income Taxes

2.243

COLGATE-PALMOLIVE COMPANY (DEC)

(Dollars in millions)	2005	2004
Total current liabilities	$2,743.0	$2,730.7
Long-term debt	2,918.0	3,089.5
Deferred income taxes	554.7	509.6
Other liabilities	941.3	1,097.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes

The provision for income taxes is determined using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based upon the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates that will be in effect at the time such differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Provision is made currently for taxes payable on remittances of overseas earnings; no provision is made for taxes on overseas retained earnings that are deemed to be permanently reinvested.

11 (In Part): Income Taxes

Temporary differences between accounting for financial statement purposes and accounting for tax purposes result in taxes currently payable being higher (lower) than the total provision for income taxes as follows:

	2005	2004	2003
Intangible assets	$(60.2)	$(46.9)	$22.1
Property, plant and equipment	34.2	(9.8)	(5.8)
Pension and other postretirement benefits	(19.8)	4.8	(24.5)
Other, net	8.3	(8.4)	69.5
	$(37.5)	$(60.3)	$61.3

The components of deferred tax assets (liabilities) are as follows at December 31:

	2005	2004
Deferred taxes—current:		
Accrued liabilities	$ 75.2	$ 71.7
Other, net	17.9	49.9
Total deferred taxes, current	93.1	121.6
Deferred taxes—long-term:		
Intangible assets	(338.1)	(278.0)
Property, plant and equipment	(257.8)	(288.9)
Tax loss and tax credit carryforwards	193.3	178.6
Other, net	(18.3)	(2.5)
Valuation allowance	(133.8)	(118.8)
Total deferred taxes, long-term	(554.7)	(509.6)
Net deferred taxes	$(461.6)	$(388.0)

The major component of the 2005 and 2004 valuation allowance relates to tax benefits in certain jurisdictions arising from net operating losses not expected to be realized.

Applicable U.S income and foreign withholding taxes have not been provided on approximately $1,200 of undistributed earnings of foreign subsidiaries at December 31, 2005. These earnings have been and are currently considered to be permanently invested and are currently not subject to such taxes. Determining the tax liability that would arise if these earnings were remitted is not practicable.

The American Jobs Creation Act of 2004 (the AJCA) created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for qualifying dividends received prior to December 31, 2005. This deduction results in an approximate 5.25% federal tax rate on qualifying repatriated earnings. During 2005, the Company's Chairman and CEO, together with the Board of Directors, approved domestic reinvestment plans as required by the AJCA to repatriate $780 in foreign earnings. The Company recorded tax expense in 2005 of $40.9 related to these dividends received. The related earnings were repatriated in the second half of 2005.

2.244

LEGGETT & PLATT, INCORPORATED (DEC)

(Amounts in millions)	2005	2004
Total current liabilities	$738.0	$959.6
Long-term debt	921.6	779.4
Other liabilities	84.6	79.7
Deferred income taxes	59.4	65.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

A (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company records, using enacted rates, deferred tax assets and liabilities for the future tax consequences of temporary differences between the financial reporting and tax bases of its assets and liabilities. A valuation allowance is provided to the extent realization of deferred tax assets is not considered likely.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns; however, the amount ultimately paid may differ from the amounts accrued. The Company accrues for tax contingencies when it is probable that a liability has been incurred and the amount of the contingency can be reasonably estimated. Provision is made for taxes on undistributed earnings of foreign subsidiaries and related companies to the extent that such earnings are not deemed to be permanently invested. The tax effect of most distributions would be offset by available foreign tax credits.

K (In Part): Income Taxes

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	$ 8.3	$ (84.5)	$ —	$ (83.5)
Accrued expenses	105.3	—	81.9	
Net operating loss and tax credit carryforwards	74.9	—	47.5	
Pension cost	7.2	(15.4)	—	(10.6)
Intangible assets	8.0	(75.1)	9.2	(50.8)
Other	13.7	(40.0)	10.1	(25.8)
Gross deferred tax assets (liabilities)	217.4	(215.0)	148.7	(170.7)
Valuation allowance	(38.0)	—	(29.0)	
Total deferred taxes	$179.4	$(215.0)	$119.7	$(170.7)
Net deferred tax liability		$ (35.6)		$ (51.0)

The valuation allowance primarily relates to net operating loss and tax credit carryforwards for which utilization is uncertain. Cumulative tax losses in certain state and foreign jurisdictions during recent years, and limited carryforward periods in certain jurisdictions were factors considered in determining the valuation allowance. Generally, no significant amount of carryforwards expire in any one year. However, $16.2 of the carryforwards will expire in 2016.

The Company recognized excess tax benefits of approximately $2.2, $4.4 and $.6 in 2005, 2004 and 2003, respectively, related to the exercise of employee stock options, which have been recorded as increases to additional contributed capital.

In 2005, the Company completed a foreign entity restructuring and cash repatriation transaction that resulted in the recognition of a deferred tax asset related to foreign losses and foreign taxes. Overall, the transaction generated a gross Foreign Tax Credit (FTC) benefit of $17.5 which was reduced by an $8 valuation allowance. The valuation allowance was recorded due to significant uncertainty regarding the Company's ability to realize all of the FTC benefit. It is reasonably possible that changes in facts and circumstances will occur within the next year that will require an adjustment to the valuation allowance.

Deferred income taxes and withholding taxes have been provided on earnings of the Company's foreign subsidiaries to the extent it is anticipated that the earnings will be remitted in the future as dividends. The tax effect of most distributions would be significantly offset by available foreign tax credits.

Deferred income taxes and withholding taxes have not been provided on undistributed earnings which management has deemed to be permanently reinvested. The cumulative undistributed earnings as of December 31, 2005 which the Company has deemed to be permanently reinvested are approximately $84.1. If such earnings were distributed, the resulting incremental taxes would be approximately $10.7 based on present income tax laws, which are subject to change.

Deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	2005	2004
Other current assets	$ 23.8	$ 14.4
Deferred income taxes	(59.4)	(65.4)
	$(35.6)	$(51.0)

Minority Interest

2.245

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

(Dollars in millions)	2005	2004
Total current liabilities	$ 7,463	$ 7,939
Long-term borrowings and capital lease obligations	6,783	5,548
Other liabilities	8,441	8,692
Deferred income taxes	1,166	966
Total liabilities	23,853	23,145
Minority interests	490	1,110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the company, subsidiaries in which a controlling interest is maintained, and variable interest entities (VIE) for which DuPont is the primary beneficiary. For those consolidated subsidiaries in which the company's ownership is less than 100 percent, the outside stockholders' interests are shown as Minority interests. Investments in affiliates over which the company has significant influence but not a controlling interest are carried on the equity basis. This includes majority-owned entities for which the company does not consolidate because a minority investor holds substantive participating rights. Investments in affiliates over which the company does not have significant influence are accounted for by the cost method.

13 (In Part): Assets and Liabilities Held for Sale and Elastomers Related Activities

In 1996, DuPont and The Dow Chemical Company (Dow) formed a 50/50 joint venture, DuPont Dow Elastomers, LLC (DDE) to participate in various synthetic rubber markets. DuPont entered into a series of agreements in 2004 with Dow related to DDE. The agreements gave DuPont complete control over directing DDE's response to synthetic rubber market antitrust investigations and litigation matters and DuPont agreed to a disproportionate share of DDE's liabilities and costs with respect to these matters. As a result of these agreements, DuPont became the primary beneficiary of the venture and accounted for DDE as a consolidated VIE beginning on April 1, 2004. The agreements further gave Dow the option to acquire from DDE, certain assets related to the

Engage®, Nordel® and Tyrin® businesses. Dow exercised its option on December 31, 2004 to acquire the agreed upon assets from DDE. Upon the exercise of this option by Dow, all criteria were met to report the Engage®, Nordel® and Tyrin® net assets as assets and liabilities held for sale in the Consolidated Balance Sheet at December 31, 2004 as follows:

Accounts and notes receivable	$ 96
Inventories	136
Property, plant and equipment (net)	298
Prepaid expense and other assets	1
Assets held for sale	$531
Accounts payable	$ 69
Borrowings and capital lease obligations	1
Deferred tax liability	2
Other liabilities	24
Liabilities held for sale	$ 96

The transaction to acquire Dow's equity interest and to transfer the agreed upon assets was completed on June 30, 2005. Upon closing, the remaining elastomers business was renamed DuPont Performance Elastomers L.L.C. (DPE) and became a wholly owned subsidiary of DuPont, continuing to operate the Neoprene, Hypalon®, Kalrez® and Viton® businesses. The asset transfer to Dow resulted in a gain of $25 as the fair value of those assets exceeded their carrying value.

23. Minority Interests

Changes in Minority interest reflect Dow's interest in DDE. At December 31, 2004, DDE was consolidated as a VIE. In 2005, certain assets of DDE were sold to Dow, at which time DDE became a wholly owned subsidiary and was renamed DuPont Performance Elastomers. See Note 13 for additional details.

2.246

UNIFI, INC. (JUN)

(Amounts in thousands)	2005	2004
Total current liabilities	$145,915	$130,374
Long-term debt and other liabilities	259,790	263,779
Deferred income taxes	55,913	71,921
Minority interests	182	4,560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Minority Interest

Effective May 29, 1998, the Company formed Unifi Textured Polyester, LLC ("UTP") with Burlington Industries, Inc., now known as International Textile Group, LLC ("ITG"), to manufacture and market natural textured polyester yarns. The Company had an 85.42% interest in UTP and ITG has 14.58%. For the first five years, ITG was entitled to the first $9.4 million of annual net earnings and the first $12.0 million of UTP's cash flows on an annual basis, less the amount of UTP net earnings. Subsequent to this five-year period, earnings and cash flows are allocated based on ownership percentages. UTP's assets, liabilities and earnings are consolidated with those of the Company and ITG's interest in the UTP is included in the Company's financial statements as minority interest (income) expense. In April 2005, the Company purchased ITG's ownership interest of 14.58% for $0.9 million in cash which resulted in a net write-down of UTP's assets of $2.9 million, as a result of applying purchase accounting to the acquisition of minority interest. Minority interest (income) expense for ITG's share of UTP in fiscal years 2005, 2004 and 2003 was $(0.5) million, $(6.5) million, and $4.7 million, respectively.

Derivatives

2.247

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	2005	2004
Total current liabilities	$ 431,740	$ 395,806
Long-term debt	1,131,353	1,080,294
Deferred income tax liability	8,279	
Postretirement and postemployment benefits liability	209,893	218,755
Minimum pension liability	409,042	401,314
Other long-term liabilities	139,144	140,375
Total liabilities	$2,329,451	$2,236,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Financial Instruments and Hedging

ATK uses interest rate swaps to manage interest costs and the risk associated with changing interest rates. ATK does not hold or issue derivative financial instruments for trading purposes. Derivatives which are used for hedging purposes must be designated as, and effective as, a hedge of identified risk exposure at the inception of the derivative contract. Prior to the application of SFAS 133, financial instruments designated as cash-flow hedges were not recorded in the financial statements, but cash flows from such contracts were recorded as adjustments to earnings as the hedged items affected earnings.

7 (In Part): Long-Term Debt and Interest Rate Swaps

Interest Rate Swaps

ATK uses interest rate swaps to manage interest costs and the risk associated with changing interest rates of long-term debt. ATK does not hold or issue derivative instruments for trading purposes. Derivatives are used for hedging purposes only and must be designated as, and effective as, a hedge of identified risk exposure at the inception of the derivative contract. As of March 31, 2005, ATK had the following interest rate swaps:

	Notional Amount	Fair Value	Interest Rate		Maturity Date
			Pay Fixed	Receive Floating	
Cash flow hedges					
Amortizing swap	$ 40,000	$ (511)	5.25%	3.09%	December 2005
Amortizing swap	40,000	(517)	5.27%	3.09%	December 2005
Non-amortizing swap	100,000	(6,440)	6.06%	3.10%	November 2008
		(7,468)			
			Receive Fixed	Pay Floating	
Fair value hedges					
Non-amortizing swap	100,000	(985)	8.50%	6.88%	May 2011
Non-amortizing swap	100,000	(1,993)	8.50%	7.09%	May 2011
Non-amortizing swap	200,000	(7,781)	8.50%	7.46%	May 2011
Derivative obligation		(10,759)			
		$(18,227)			

In March 2004, ATK entered into a seven-year swap, with a $200,000 notional value, against ATK's Senior Subordinated Notes. This swap agreement involves the exchange of amounts based on a variable rate of six-month LIBOR plus an adder rate of 4.18% over the life of the agreement, without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt.

In May 2002, ATK entered into two nine-year swaps, with a $100,000 notional value each, against ATK's Senior Subordinated Notes. In fiscal 2003, ATK re-couponed these swap contracts. The transaction resulted in resetting the interest rate from LIBOR plus 2.3% to LIBOR plus 3.7% and the receipt of $16,750 cash, which is included in other long-term liabilities and is being amortized to reduce interest expense through May 2011.

The fair market value of ATK's interest rate swaps was $(18,227) at March 31, 2005, a decline of $2,253 since March 31, 2004. Of the fair market value of $(18,227), $(18,948) was recorded within other long-term liabilities on the balance sheet, $(1,028) was within other accrued liabilities, and $1,749 was within other current assets.

Preferred Stock

2.248

CITIZENS COMMUNICATIONS COMPANY (DEC)

($ in thousands)	2005	2004
Total current liabilities	$ 616,642	$ 417,520
Deferred income taxes	325,084	232,766
Other liabilities	429,198	388,895
Long-term debt	3,999,376	4,266,998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10) Fair Value of Financial Instruments

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2005 and 2004. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments.

The fair value of our marketable securities and long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments. Other securities and investments for which market values are not readily available are carried at cost.

	2005		2004	
($ in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$ 19,136	$ 19,136	$ 23,062	$ 23,062
Long-term debt(1)	$3,999,376	$4,026,453	$4,266,998	$4,607,298

(1) 2005 and 2004 includes interest rate swaps of $(8,727,000) and $4,466,000, respectively. 2005 and 2004 includes EPPICS of $33,785,000 and $63,765,000, respectively.

11) (In Part): Long-Term Debt

The activity in our long-term debt from December 31, 2004 to December 31, 2005 is summarized as follows:

		Twelve Months Ended				
($ in thousands)	December 31, 2004	Payments	Interest Rate Swap	Other	December 31, 2005	Interest Rate* at December 31, 2005
Rural utilities service loan contracts	$ 29,108	$(6,299)	$ —	$ —	$ 22,809	6.070%
Senior unsecured debt	4,131,803	—	(13,193)	2,171	4,120,781	8.117%
EPPICS** (reclassified as a result of adopting FIN 46R	63,765	—	—	(29,980)	33,785	5.000%
ELI capital leases	4,421	(134)	—	—	4,287	10.364%
Industrial development revenue bonds	58,140	—	—	—	58,140	5.559%
Total long term debt	$4,287,237	$(6,433)	$(13,193)	$(27,809)	$4,239,802	
Less: debt discount	(13,859)				(12,692)	
Less: current portion	(6,380)				(227,734)	
	$4,266,998				$3,999,376	

* Interest rate includes amortization of debt issuance expenses, debt premiums or discounts. The interst rate for rural utilities service loan contracts, senior unsecured debt, and industrial development revenue bonds represent a weighted average of multiple issuances.

** In accordance with FIN 46R, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. are now deconsolidated (see Note 15).

For the year ended December 31, 2005, we retired an aggregate $36,412,000 of debt (including $29,980,000 of EPPICS conversions), representing approximately 1% of total debt outstanding at December 31, 2004. During the second quarter of 2005, we entered into two debt-for-debt exchanges of our debt securities. As a result, $50,000,000 of our 7.625% Notes due 2008 were exchanged for approximately $52,171,000 of our 9.00% Notes due 2031. The 9.00% Notes are callable on the same general terms and conditions as the 7.625% Notes exchanged. No cash was exchanged in these transactions, however a non-cash pretax loss of approximately $3,175,000 was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" which is included in other income (loss), net.

As of December 31, 2005, EPPICS representing a total principal amount of $177,971,000 had been converted into 14,237,807 shares of our common stock.

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For the year ended December 31, 2004, we retired an aggregate $1,362,012,000 of debt (including $147,991,000 of EPPICS conversions), representing approximately 28% of total debt outstanding at December 31, 2003.

15) Company Obligated Mandatorily Redeemable Convertible Preferred Securities

In 1996, our consolidated wholly-owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (EPPICS), representing preferred undivided interests in the assets of the Trust, with a liquidation preference of $50 per security (for a total liquidation amount of $201,250,000). These securities have an adjusted conversion price of $11.46 per Citizens common share. The conversion price was reduced from $13.30 to $11.46 during the third quarter of 2004 as a result of the $2.00 per share special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase $207,475,000 aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly-owned subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred

Securities and a Company capital contribution were used to purchase from us $211,756,000 aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures are substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constitute a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in the four quarters of 2005, 2004 and 2003. Only cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2005, EPPICS representing a total principal amount of $177,971,000 had been converted into 14,237,807 shares of our common stock.

We adopted the provisions of FIN 46R (revised December 2003) (FIN 46R), "Consolidation of Variable Interest Entities," effective January 1, 2004. Accordingly, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. are deconsolidated.

2.249

DILLARD'S, INC. (JAN)

(Dollars in thousands)	2006	2005
Total current liabilities	$1,147,392	$1,045,233
Long-term debt	1,058,946	1,322,824
Capital lease obligations	31,806	20,182
Other liabilities	259,111	269,056
Deferred income taxes	479,123	509,589
Operating leases and commitments guaranteed preferred beneficial interests in the company's subordinated debentures	200,000	200,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures

Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures are comprised of $200 million liquidation amount of 7.5% Capital Securities, due August 1, 2038 (the "Capital Securities") representing beneficial ownership interest in the assets of Dillard's Capital Trust I, a consolidated entity of the Company.

Holders of the Capital Securities are entitled to receive cumulative cash distributions, payable quarterly, at the annual rate of 7.5% of the liquidation amount of $25 per Capital Security. The subordinated debentures are the sole assets of the Trust, and the Capital Securities are subject to mandatory redemption upon repayment of the subordinated debentures. The Company's obligations under the debentures and related agreements, taken together, provides a full and unconditional guarantee of payments due on the Capital Securities.

15. Fair Value Disclosures

The estimated fair values of financial instruments which are presented herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

The fair value of trade accounts receivable is determined by discounting the estimated future cash flows at current market rates, after consideration of credit risks and servicing costs using historical rates. The fair value of the Company's long-term debt and Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures is based on market prices or dealer quotes (for publicly traded unsecured notes) and on discounted future cash flows using current interest rates for financial instruments with similar characteristics and maturity (for bank notes and mortgage notes).

The fair value of the Company's cash and cash equivalents and trade accounts receivable approximates their carrying values at January 28, 2006 and January 29, 2005 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at January 28, 2006 and January 29, 2005 was $1.23 billion and $1.47 billion, respectively. The carrying value of the Company's long-term debt at January 28, 2006 and January 29, 2005 was $1.26 billion and $1.41 billion, respectively. The fair value of the Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures at January 28, 2006 and January 29, 2005 was $196 million and $199 million, respectively. The carrying value of the Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures at January 28, 2006 and January 29, 2005 was $200 million and $200 million, respectively.

Employee-Related Liabilities

2.250

THE NEW YORK TIMES COMPANY (DEC)

(In thousands)	2005	2004
Total current liabilities	$1,066,522	$1,119,749
Other liabilities		
Long-term debt	821,962	393,601
Capital lease obligations	76,338	77,873
Deferred income taxes	79,806	132,108
Other	783,185	691,364
Total other liabilities	1,761,291	1,294,946
Minority interest	188,976	134,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Pension and Postretirement Benefits

The Company sponsors several pension plans and makes contributions to several others in connection with collective bargaining agreements. The Company also provides health and life insurance benefits to retired employees who are not covered by collective bargaining agreements.

The Company's pension and postretirement benefit costs are accounted for using actuarial valuations required by FAS No. 87, Employers' Accounting for Pensions ("FAS 87"), and FAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("FAS 106").

10 (In Part): Pension Benefits

The Company sponsors several pension plans and makes contributions to several others in connection with collective bargaining agreements, including a joint company-union plan and a number of joint industry-union plans. These plans cover substantially all employees.

The Company-sponsored plans include qualified (funded) plans as well as non-qualified (unfunded) plans. These plans provide participating employees with retirement benefits in accordance with benefit provision formulas, which are based on years of service and final average or career pay and, where applicable, employee contributions. The Company's non-qualified plans provide retirement benefits only to certain highly compensated employees of the Company.

The Company also has a foreign-based pension plan for IHT employees (the "Foreign plan"). The information for the Foreign plan is combined with the information for U.S. non-qualified plans. The benefit obligation of the Foreign plan is immaterial to the Company's total benefit obligation.

The changes in benefit obligation and plan assets as of December 2005 and December 2004, for all Company-sponsored pension plans, were as follows:

	2005			2004		
(In thousands)	Qualified Plans	Non-Qualified Plans	All Plans	Qualified Plans	Non-Qualified Plans	All Plans
Change in benefit obligation						
Benefit obligation at prior measurement date	$1,194,858	$ 202,403	$1,397,261	$1,093,091	$ 189,018	$1,282,109
Service cost	37,446	2,342	39,788	33,279	2,155	35,434
Interest cost	67,548	11,435	78,983	64,206	11,160	75,366
Plan participants' contributions	71	—	71	83	—	83
Actuarial loss	75,955	23,849	99,804	54,200	12,032	66,232
Special termination benefits	—	796	796	—	—	—
Benefits paid	(48,766)	(12,306)	(61,072)	(50,001)	(12,188)	(62,189)
Effect of change in currency conversion	—	(390)	(390)	—	226	226
Benefit obligation at current measurement date	1,327,112	228,129	1,555,241	1,194,858	202,403	1,397,261
Change in plan assets						
Fair value of plan assets at prior measurement date	1,039,493	—	1,039,493	924,358	—	924,358
Actual return on plan assets	73,761	—	73,761	107,653	—	107,653
Employer contribution	47,300	12,306	59,606	57,400	12,188	69,588
Plan participants' contributions	71	—	71	83	—	83
Benefits paid	(48,766)	(12,306)	(61,072)	(50,001)	(12,188)	(62,189)
Fair value of plan assets at measurement date	1,111,859	—	1,111,859	1,039,493	—	1,039,493
Funded status	(215,253)	(228,129)	(443,382)	(155,365)	(202,403)	(357,768)
Unrecognized actuarial loss	308,359	88,221	396,580	240,847	69,642	310,489
Unrecognized prior service cost	4,688	1,334	6,022	5,091	1,404	6,495
Net amount recognized	$ 97,794	$(138,574)	$ (40,780)	$ 90,573	$(131,357)	$ (40,784)
Amount recognized in the consolidated balance sheets consist of:						
Accrued benefit cost	$ (74,644)	$(197,953)	$ (272,597)	$ (26,612)	$(175,718)	$ (202,330)
Intangible asset	4,739	1,334	6,073	5,273	1,404	6,677
Accumulated other comprehensive loss	167,699	58,045	225,744	111,912	42,957	154,869
Net amount recognized	$ 97,794	$(138,574)	$ (40,780)	$ 90,573	$(131,357)	$ (40,784)

The accumulated benefit obligation for all pension plans was $1.4 billion as of December 2005 and $1.2 billion as of December 2004.

Information for pension plans with an accumulated benefit obligation in excess of plan assets as of December 2005 and December 2004, were as follows:

(In thousands)	2005	2004
Projected benefit obligation	$1,555,241	$1,397,261
Accumulated benefit obligation	$1,384,382	$1,241,823
Fair value of plan assets	$1,111,859	$1,039,493

Additional information about the Company's pension plans were as follows:

(In thousands)	2005	2004
Increase in minimum pension liability included in other comprehensive income	$70,875	$700

Weighted-average assumptions used in the actuarial computations to determine benefit obligations as of December 2005 and December 2004, were as follows:

	2005	2004
Discount rate	5.50%	5.75%
Rate of increase in compensation levels	4.50%	4.50%

Weighted-average assumptions used in the actuarial computations to determine net periodic pension cost were as follows:

	2005	2004	2003
Discount rate	5.75%	6.00%	6.50%
Rate of increase in compensation levels	4.50%	4.50%	4.50%
Expected long-term rate of return on assets	8.75%	8.75%	8.75%

Beginning in 2005, the discount rate used for determining future pension obligations was changed to a methodology that equates the plans' projected benefit obligations to a present value calculated using the Citigroup Pension Discount Curve. The Company changed to this approach to better reflect the specific cash flows of these plans in determining the discount rate. Previously, the discount rates were based on an index of Aa-rated corporate bonds.

The methodology described above includes producing a cash flow of annual accrued benefits as defined under the Projected Unit Cost Method as provided by FAS 87. For active participants, service is projected to the end of 2005 and benefit earnings are projected to the date of termination. The projected plan cash flow is discounted to the measurement date using the Annual Spot Rates provided in the Citigroup Pension Discount Curve. A single discount rate is then computed so that the present value of the benefit cash flow (on a projected benefit obligation basis as described above) equals the present value computed using the Citigroup annual rates.

In determining the expected long-term rate of return on assets, the Company evaluated input from its investment consultants, actuaries and investment management firms, including their review of asset class return expectations, as well as long-term historical asset class returns. Projected returns by such consultants and economists are based on broad equity and bond indices. Additionally, the Company considered its historical 10-year and 15-year compounded returns, which have been in excess of the Company's forward-looking return expectations.

The Company's pension plan weighted-average asset allocations as of December 2005 and December 2004, by asset category, were as follows:

	Percentage of Plan Assets	
Asset category	2005	2004
Equity securities	75%	74%
Debt securities	22%	24%
Real estate	3%	2%
Total	100%	100%

The Company's investment policy is to maximize the total rate of return (income and appreciation) with a view to the long-term funding objectives of the pension plans. Therefore, the pension plan assets are diversified to the extent necessary to minimize risks and to achieve an optimal balance between risk and return and between income and growth of assets through capital appreciation.

The Company's policy is to allocate pension plan funds within a range of percentages for each major asset category as follows:

	% Range
Equity securities	65–75%
Debt securities	17–28%
Real estate	0–5%
Other	0–5%

The Company may direct the transfer of assets between investment managers in order to rebalance the portfolio in accordance with asset allocation ranges above to accomplish the investment objectives for the pension plan assets.

In 2005, the Company changed its mortality assumption to the 1994 Group Annuity Mortality Table from the 1983 Group Annuity Mortality Table. This change was made by the Company to incorporate an updated mortality assumption to calculate its pension obligation.

In December 2005 and December 2004, the Company made tax-deductible contributions of $47.3 million and $57.4 million, respectively, to its qualified pension plans. Although the Company does not have any minimum funding requirements in 2006 (under the Employee Retirement Income Security Act of 1974, as amended, and Internal Revenue Code requirements), it may elect to make a contribution. The amount of the contribution, if any, would be based on the results of the January 1, 2006 valuation, market performance and interest rates in 2006 as well as other factors. Assuming that the Company achieves an 8.75% return on pension assets, that interest rates are stable and that there are no changes to the Company's benefits structure in 2006, it expects making contributions in the fourth quarter of 2006 in the same range as the contributions made in 2005 and 2004.

The Company's accrued benefit cost for its sponsored pension plans is included in "Other Liabilities—Other" in the Company's Consolidated Balance Sheets (see Note 12).

The following benefit payments (net of plan participant contributions for non-qualified plans) under the Company's pension plans, which reflect expected future services, are expected to be paid:

(In thousands)	Qualified Plans	Non-Qualified Plans	Total
2006	$ 53,102	$ 12,234	$ 65,336
2007	54,398	12,178	66,576
2008	56,621	12,747	69,368
2009	59,090	13,090	72,180
2010	60,317	13,316	73,633
2011–2015	361,518	77,561	439,079
Total benefit payments	$645,046	$141,126	$736,172

11 (In Part): Postretirement and Postemployment Benefits

The Company provides health and life insurance benefits to retired employees (and their eligible dependents) who are not covered by any collective bargaining agreements if the employees meet specified age and service requirements.

The Company's policy is to pay its portion of insurance premiums and claims under the above-mentioned plan from Company assets.

In accordance with FAS 106, the Company accrues the costs of such benefits during the employees' active years of service.

In connection with collective bargaining agreements, the Company contributes to several welfare plans, including a joint company-union plan and a number of joint industry-union plans. Contributions are determined as a function of hours worked or period earnings. Portions of these contributions, which cannot be disaggregated, relate to postretirement benefits for plan participants. Postretirement costs related to these welfare plans were $37.4 million in 2005, $31.6 million in 2004 and $28.2 million in 2003.

The accrued postretirement benefit liability and the change in benefit obligation as of December 2005 and December 2004 were as follows:

(In thousands)	2005	2004
Change in benefit obligation		
Benefit obligation at prior measurement date	$ 217,878	$ 195,768
Service cost	6,920	6,158
Interest cost	12,210	11,539
Plan participants' contributions	2,370	2,544
Actuarial loss	12,154	15,705
Benefits paid	(14,801)	(13,836)
Benefit obligation at current measurement date	236,731	217,878
Change in plan assets		
Fair value of plan assets at prior measurement date	—	—
Employer contribution	14,801	13,836
Benefits paid	(14,801)	(13,836)
Fair value of plan assets at current measurement date	—	—
Funded status	(236,731)	(217,878)
Unrecognized actuarial loss	68,121	58,610
Unrecognized prior service cost	(48,672)	(53,845)
Net amount recognized	$(217,282)	$(213,113)

On January 1, 2004, amendments to the Company's postretirement plan became effective. These amendments included changes to the age and service eligibility requirements and an increase in deductibles, co-payments, and out-of-pocket maximum payments related to the medical prescription drug plans. The amendments resulted in a reduction of the Company's Accumulated Postretirement Benefit Obligation ("APBO") of $44.2 million that was treated as a negative prior service cost, and is being amortized beginning in 2004.

The Company adopted FASB Staff Position No. 106-2, in connection with the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("Medicare Reform Act") which decreased the Company's APBO in the amount of $32.7 million. The decrease in the APBO was treated as a gain, and is being amortized beginning in 2004.

Pursuant to the Medicare Reform Act, through December 2005, the Company integrated its postretirement benefit plan with Medicare (the "Integration Method"). Under this option benefits paid by the Company are offset by Medicare. Beginning in 2006, the Company elected to receive the Medicare retiree drug subsidy ("Retiree Drug Subsidy") instead of the benefit under the Integration Method.

In February 2006 the Company announced amendments, such as the elimination of retiree-medical benefits to new employees, to its postretirement benefit plan effective January 1, 2007. The amendments will reduce the future obligations and expense to the Company under this plan.

Weighted-average assumptions used in the actuarial computations to determine the postretirement benefit obligations as of December 2005 and December 2004 were as follows:

	2005	2004
Discount rate	5.50%	5.75%
Estimated increase in compensation level	4.50%	4.50%

Weighted-average assumptions used in the actuarial computations to determine net periodic postretirement cost were as follows:

	2005	2004	2003
Discount rate	5.75%	6.00%	6.50%
Estimated increase in compensation level	4.50%	4.50%	4.50%

The assumed health-care cost trend rates as of December 2005 and December 2004, were as follows:

	2005	2004
Health-care cost trend rate assumed for next year:		
Medical	7.00%–9.00%	7.25%–9.50%
Prescription	11.50%	12.50%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2013	2013

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage point change in assumed health-care cost trend rates would have the following effects:

(In thousands)	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost for 2005	$ 3,453	$ (2,779)
Effect on accumulated postretirement benefit obligation as of December 2005	$36,252	$(29,457)

In 2005, the Company changed its mortality assumption to the 1994 Group Annuity Mortality Table from the 1983 Group Annuity Mortality Table. This change was made by the Company to incorporate an updated mortality assumption to calculate its postretirement obligation.

The following benefit payments (net of plan participant contributions) under the Company's postretirement plan, which reflect expected future services, are expected to be paid:

(In thousands)	Amount
2006	$ 11,172
2007	11,598
2008	11,945
2009	12,528
2010	13,051
2011–2015	75,391
Total benefit payments	$135,685

The Company expects to receive cash payments of approximately $19 million related to the Retiree Drug Subsidy from 2006 through 2015. The benefit payments in the above table are not reduced for the Retiree Drug Subsidy.

In accordance with FAS No. 112, Employers' Accounting for Postemployment Benefits, the Company accrues the cost of certain benefits provided to former or inactive employees after employment but before retirement (such as workers' compensation, disability benefits and health-care continuation coverage) during the employees' active years of service. The accrued cost of these benefits is included in "Other Liabilities—Other" in the Company's Consolidated Balance Sheets and amounted to $10.1 million as of December 2005 and $8.8 million as of December 2004.

12 (In Part): Other Liabilities

The components of the "Other Liabilities—Other" balance in the Company's Consolidated Balance Sheets were as follows:

(In thousands)	December 2005	December 2004
Pension benefits obligation (see Note 10)	$272,597	$202,330
Postretirement benefits obligation (see Note 11)	217,282	213,113
Deferred compensation (see below)	137,973	131,264
Other liabilities	155,333	144,657
Total	$783,185	691,364

Deferred compensation consists primarily of deferrals under a Company-sponsored deferred executive compensation plan (the "DEC plan"). The DEC plan obligation is recorded at fair market value and amounted to $130.1 million as of December 2005 and $123.0 million as of December 2004.

The DEC plan enables certain eligible executives to elect to defer a portion of their compensation on a pre-tax basis. The deferrals are initially for a period of a minimum of two years after which time taxable distributions must begin unless the period is extended by the participant. Employees' contributions earn income based on the performance of investment funds they select.

The Company invests deferred compensation in life insurance products designed to closely mirror the performance of the investment funds that the participants select. The Company's investments in life insurance products are recorded at fair market value and are included in "Miscellaneous Assets" in the Company's Consolidated Balance Sheets, and amounted to $129.3 million as of December 2005 and $121.9 million as of December 2004.

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OLIN CORPORATION (DEC)

($ in millions)	2005	2004
Total current liabilities	$ 367.1	$ 321.5
Long-term debt	257.2	260.7
Accrued pension liability	556.8	505.2
Other liabilities	189.5	174.6
Total liabilities	$1,370.6	$1,262.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($ in millions)

Accounting Policies (In Part)

Retirement-Related Benefits

We account for our defined benefit pension plans and non-pension postretirement benefit plans using actuarial models required by SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. These models use an attribution approach that generally spreads the financial impact of changes to the plan and actuarial assumptions over the average remaining service lives of the employees in the plan. Changes in liability due to changes in actuarial assumptions such as discount rate, rate of compensation increases and mortality, as well as annual deviations between what was assumed and what was experienced by the plan are treated as gains or losses. Gains and losses are amortized over the group's service lifetime, to the extent they fall outside of a corridor designed to dampen annual volatility.

One of the key assumptions for the net periodic pension calculation is the expected long-term rate of return on plan assets, used to determine the "market-related value of assets." (The "market-related value of assets" recognizes differences between the plan's actual return and expected return over a five year period). The required use of an expected long-term rate of return on the market-related value of plan assets may result in a recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. As differences between actual and expected returns are recognized over five years, they generate gains and losses that are subject to amortization over the average remaining service life of the group, as described in the preceding paragraph.

We use long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources to develop the expected return on plan assets.

The discount rate assumptions used for pension and non-pension postretirement benefit plan accounting reflect the rates available on high-quality fixed-income debt instruments on December 31 of each year. The rate of compensation increase is another significant assumption used in the actuarial model for pension accounting which we determine based upon our long-term plans for such increases. For retiree medical plan accounting, we review external data and our own historical trends for healthcare costs to determine the healthcare cost trend rates.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (DIMA). The DIMA introduced a federal subsidy to sponsors of retiree healthcare benefit plans that provided a benefit that is at least the actuarial equivalent to Medicare Part D. We recognized the savings on the measure of the Accumulated Postretirement Benefit Obligation or net periodic benefit cost as a result of DIMA. The savings were de minimis. These financial statements and accompanying notes reflect the effects of the Act on our benefit plans.

Pension Plans and Retirement Benefits (In Part)

Almost all of our domestic defined benefit pension plans are non-contributory final-average-pay or flat-benefit plans and most of our domestic employees are covered by a defined benefit pension plan. Our funding policy for the defined benefit pension plans is consistent with the requirements of federal laws and regulations. Our foreign subsidiaries maintain pension and other benefit plans, which are consistent with statutory practices and are not significant. Our defined benefit pension plan provides that if, within three years following a change of control of Olin, any corporate action is taken or filing made in contemplation of, among other things, a plan termination or merger or other transfer of assets or liabilities of the plan, and such termination, merger or transfer thereafter takes place, plan benefits would automatically be increased for affected participants (and retired participants) to absorb any plan surplus (subject to applicable collective bargaining requirements).

Certain employees participate in defined contribution plans. Our defined benefit pension plan was closed to salaried employees and certain hourly employees hired after December 31, 2004. These employees participate in a defined contribution pension plan which is administered as part of the Olin Contributing Employee Ownership Plan ("CEOP"). We contribute a defined percentage of pay to the defined contribution plan on behalf of each of the eligible employees to an individual retirement contribution. Expenses of the defined contribution plans were $0.6, $0.5, and $0.5 for 2005, 2004 and 2003, respectively.

We also provide certain postretirement heath care (medical) and life insurance benefits for eligible active and retired domestic employees. The health care plans are contributory with participants' contributions adjusted annually based on medical rates of inflation and plan experience. We use a measurement date of December 31 for the majority of our pension and postretirement plans.

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	$1,598.2	$1,533.7	$ 85.3	$ 82.1
Service cost	20.5	16.4	2.2	2.2
Interest cost	92.9	93.3	5.1	5.1
Actuarial loss	52.9	57.6	8.7	11.5
Amendments	10.2	1.2	(1.5)	(0.4)
Benefits paid	(109.2)	(104.0)	(13.0)	(15.2)
Benefit obligation at end of year	$ 1,665.5	$1,598.2	$ 86.8	$ 85.3
Change in plan assets				
Fair value of plans' assets at beginning of year	$1,283.1	$1,077.1		
Actual return on plans' assets	92.6	136.8		
Employer contributions	12.9	173.2		
Benefits paid	(109.2)	(104.0)		
Fair value of plans' assets at end of year	$1,279.4	$1,283.1		
Funded status	$ (386.1)	$ (315.0)	$(86.8)	$(85.3)
Unrecognized actuarial loss	531.9	482.8	57.2	52.3
Unrecognized prior service cost	32.5	23.8	(3.0)	(2.2)
Net balance sheet impact	$ 178.3	$ 191.6	$(32.6)	$(35.2)
Amounts recognized in the consolidated balance sheet consist of:				
Prepaid benefit cost	$ 215.8	$ 230.4	$ —	$ —
Intangible asset in prepaid pension cost	32.5	27.4	—	—
Accrued benefit liability in other liabilities	(556.8)	(505.2)	(32.6)	(35.2)
Accumulated other comprehensive loss	486.8	439.0	—	—
Net balance sheet impact	$ 178.3	$ 191.6	$(32.6)	$(35.2)

The $52.9 actuarial loss for 2005 was primarily the result of the 25-basis point decrease in the discount rate used to calculate the benefit obligation ($48.0). The benefit obligation for amendments in 2005 was due to contractual benefit changes.

At December 31, 2005 and 2004, the benefit obligation of non-qualified pension plans was $62.7 and $60.8, respectively, and is included in the above pension benefit obligation. There are no plan assets for these non-qualified pension plans. Benefit payments for the qualified plans are projected to be as follows: 2006 and 2007–$98.8; 2008–$99.1; 2009—$100.8; and 2010—$102.7. Benefit payments for the non-qualified pension plans are expected to be as follows: 2006—$11.4; 2007—$4.7; 2008—$4.4; 2009—$4.3; and 2010—$4.2.

Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets	2005	2004
Projected benefit obligation	$1,665.5	$1,598.2
Accumulated benefit obligation	$1,615.9	$1,553.4
Fair value of plan assets	$1,279.4	$1,283.1

Plan Assumptions

Certain actuarial assumptions, such as discount rate and long-term rate of return on plan assets have a significant effect on the amounts reported for net periodic benefit cost and accrued benefit obligation amounts.

	Pension Benefits			Other Postretirement Benefits		
Weighted Average Assumptions	2005	2004	2003	2005	2004	2003
Discount rate—periodic benefit cost	6.00%	6.25%	6.75%	6.00%	6.25%	6.75%
Expected return on assets	9.0%	9.0%	9.0%	N/A	N/A	N/A
Rate of compensation increase	3.3%	3.3%	4.5%	N/A	N/A	N/A
Discount rate—benefit obligation	5.75%	6.00%	6.25%	5.75%	6.00%	6.25%

The discount rate is based on a hypothetical yield curve represented by a series of annualized individual zero-coupon bond spot rates for maturities ranging from one-half to thirty years. The bonds used in the yield curve must have a rating of AA or better per Standard & Poor's, be non-callable, and have at least $150 par outstanding. The yield curve is then applied to the projected benefit payments from the plan. Based on these bonds and the projected benefit payment streams, the single rate that produces the same yield as the matching bond portfolio, rounded to the nearest quarter point, is used as the discount rate.

The long-term expected rate of return on plan assets represents an estimate of the long-term rate of returns on the investment portfolio consisting of equities, fixed income, and alternative investments. We use long-term historical actual return information, the allocation mix of investments that comprise plan assets, and forecast estimates of long-term investment returns by reference to external sources. The historic rate of return on plan assets has been 6.2% for the last 5 years, 9.1% for the last 10 years, and 11.6% for the last 15 years. The following rates of return by asset class were considered in setting the long-term rate of return assumption:

U.S. equities	9% to 13%
Non-U.S. equities	10% to 14%
Fixed income	5% to 9%
Alternative investments	5% to 15%

We review external data and our own internal trends for healthcare costs to determine the healthcare cost for the post retirement benefit obligation. The assumed healthcare cost trend rates for pre-65 retirees was as follows:

	Other Postretirement Benefits	
	2005	2004
Healthcare cost trend rate assumed for next year	9.0%	9.0%
Rate that the cost trend rate gradually declines to	4.5%	4.5%
Year that the rate reaches the ultimate rate	2011	2010

For post-65 retirees, we provide a fixed dollar benefit, which is not subject to escalation.

Assumed healthcare cost trend rates have an effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of service and interest costs	$0.4	$(0.4)
Effect on postretirement benefit obligation	4.7	(3.8)

Plan Assets

Our pension plan asset allocation at December 31, 2005 and 2004, by asset class is as follows:

	Percentage of Plan Assets	
	2005	2004
Asset class		
U.S. equities	39%	43%
Non-U.S. equities	19	18
Total equities	58	61
Fixed income/cash	27	25
Alternative investments	15	14
Total	100%	100%

The Alternative Investments asset class includes real estate partnerships, strategic partnerships, private equity investments, commodities, and absolute return funds. The Alternative Investment class is intended to help minimize risk and increase returns by utilizing a broader group of assets.

A master trust was established by our pension plan to accumulate funds required to meet benefit payments of our plan and is administered solely in the interest of our plan's participants and their beneficiaries. The master trust's investment horizon is long term. Its assets are managed by professional investment managers or invested in professionally managed investment vehicles.

The master trust's investment objective is to maximize the long-term total rate of return on assets within the limits of applicable fiduciary standards dictated by the Employee Retirement Income Security Act of 1974, as amended. Risk is managed by diversifying assets across asset classes whose return patterns are not highly correlated, investing in passively and actively managed strategies and in value and growth styles, and by periodic rebalancing of asset classes, strategies and investment styles to objectively set targets.

The following target allocation and ranges have been set for each asset class:

	Target Allocation	Target Range
Asset class		
U.S. equities	40%	37–43%
Non-U.S. equities	17	15–19
Total equities	57	52–62
Fixed income/cash	30	22–38
Alternative investments	13	10–16

Ranges recognize the tendency of trends to persist and are designed to minimize transactions costs associated with rebalancing. Asset class target allocations are reviewed periodically and adjusted as appropriate.

For our qualified pension plans, no mandatory contributions will be required until 2008. We may elect to make selective voluntary contributions, when appropriate, between now and 2008. We expect to make payments of $9.0 for each of the next five years under the provisions of our other postretirement benefit plans.

Discontinued Operations

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QUANEX CORPORATION (OCT)

(In thousands)	2005	2004
Total current liabilities	$223,900	$216,848
Long-term debt	133,462	128,680
Deferred pension credits	8,158	8,804
Deferred postretirement welfare benefits	7,519	7,745
Deferred income taxes	58,836	53,514
Non-current environmental reserves	6,732	8,188
Other liabilities	2,742	2,828
Liabilities of discontinued operations	2,120	2,829
Total liabilities	$443,469	$429,436

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Critical Accounting Policies

Discontinued Operations

The Company presents the results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for "held for sale accounting" as discontinued operations. At the time an operation qualifies for held for sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held for sale accounting. Management judgment is required to (1) assess the criteria required to meet held for sale accounting, and (2) estimate fair value. Changes to the operation could cause it to no longer qualify for held for sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

19. Discontinued Operations

In accordance with SFAS No. 144, "Accounting *for the Impairment or Disposal of Long-Lived Assets*," the results of operations, financial position and cash flows of Temroc, Piper Impact and Nichols Aluminum-Golden have been reflected in the consolidated financial statements and notes as a discontinued operation for all periods presented. Nichols Aluminum-Golden was sold on September 30, 2004, while the Piper Impact business was sold on January 25, 2005.

The Company classified Temroc as held for sale during the fourth quarter of fiscal year 2005. Historically, Temroc had been reported in the Vehicular Products segment. The August 31, 2005 annual impairment test revealed that the carrying value of the Company's Temroc business exceeded its fair value and resulted in an $11.4 million impairment loss of Temroc's goodwill. The Company primarily used the present value of future cash flows to determine the fair value and validated the result against the market approach. The fiscal 2005 impairment loss resulted mostly due to a change in management's expectations of projected cash flows, but was also impacted by an increase in the discount rate. The projected cash flows used in the 2005 evaluation reflected lower margin business from a change in the overall product mix. Later in the fourth quarter of fiscal 2005, Temroc met the held for sale criteria. Accordingly, an additional impairment loss of $1.7 million was recorded to write-down Temroc to its fair value less cost to sell as of October 31, 2005. The Company signed a Letter of Intent for Temroc from a potential buyer and is currently in the process of negotiating a definitive agreement. The Company believes Temroc will be sold within one year. Considering both the annual impairment testing and the classification of Temroc as held for sale, the Company recorded a total Temroc loss of $13.1 million during the fourth quarter of 2005.

Comparative balance sheets of the discontinued operations were as follows:

(In thousands)	2005	2004
Current assets		
Accounts and notes receivable, net	$ 3,408	$ 6,424
Inventories	2,078	5,068
Income tax receivable	—	3,828
Other current assets	18	748
Total current assets	5,504	16,068
Property, plant and equipment, net	5,247	16,581
Other assets	599	29,038
Total assets	$11,350	$61,687
Current liabilities		
Accounts payable	$ 2,591	$ 4,059
Accrued liabilities	750	2,471
Other current liabilities	867	990
Total current liabilities	4,208	7,520
Other liabilities	2,120	2,829
Total liabilities	$ 6,328	$10,349

Operating results of the discontinued operations were as follows:

(In thousands)	2005	2004	2003
Net sales	$ 27,871	$136,107	$152,967
Income (Loss) from discontinued operations	(16,602)	1,846	(1,245)
Loss on sale of discontinued operations	(6,537)	(6,436)	—
Income tax benefit (expense)	1,066	1,629	486
Income (loss) from discontinued operations, net of taxes	$(22,073)	$ (2,961)	$ (759)

The $22.1 million loss from discontinued operations for the fiscal year 2005 includes the $13.1 million Temroc non-cash impairment losses discussed above, $3.9 million after-tax loss on sale of Piper Impact, $1.9 million after-tax operating loss at Piper Impact and a $2.9 million after-tax loss related to the sale of Nichols Aluminum-Golden. The $3.0 million loss from discontinued operations for the year ended October 31, 2004 includes a $0.6 million after-tax loss on the sale of Nichols Aluminum-Golden and net after-tax charges of $3.5 million related to Piper Impact offset by $1.7 million of Nichols Aluminum-Golden after-tax income for the period the Company owned the business. The $0.8 million loss from discontinued operations in fiscal 2003 was comprised of $3.1 million Piper Impact after-tax operating loss partially offset by a $2.0 million and $0.3 million of after-tax operating income at Nichols Aluminum-Golden and Temroc, respectively.

Environmental Costs

2.253

ARVINMERITOR, INC. (SEP)

(In millions)	2005	2004
Total current liabilities	$2,523	$2,273
Long-term debt	1,451	1,487
Retirement benefits	754	583
Other liabilities	209	247
Minority interests	58	61

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Other Liabilities

Other liabilities are summarized as follows (in millions):

	2005	2004
Asbestos	$ 38	$ 61
Non-current deferred income tax liabilities	23	59
Product warranties	38	30
Environmental (see Note 22)	16	26
Long-term payable	57	33
Other	37	38
Other liabilities	$209	$247

22 (In Part): Contingencies

Environmental

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have, and will continue to have, an impact on the manufacturing operations of the company. The process of estimating environmental liabilities is complex and dependent on physical and scientific data at the site, uncertainties as to remedies and technologies to be used and the outcome of discussions with regulatory agencies. The company records liabilities for environmental issues in the accounting period in which its responsibility and remediation plans are established and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, the company records a liability for its allocable share of costs related to its involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which ArvinMeritor is the only potentially responsible party, the company records a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

The company has been designated as a potentially responsible party at seven Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's potential liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at September 30, 2005 to be approximately $28 million, of which $11 million is recorded as a liability. During fiscal year 2005, the company recorded environmental remediation costs of $6 million resulting from a revised estimate to remediate a former Rockwell facility sold in 1990.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at September 30, 2005 to be approximately $52 million, of which $13 million is recorded as a liability. During fiscal year 2004, the company recorded environmental remediation costs of $11 million resulting from an agreement with the Environmental Protection Agency to remediate a different former Rockwell facility that was sold in 1985.

Included in the company's environmental liabilities are costs for on-going operating, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using a discount rate of 5-percent and is approximately $6 million at September 30, 2005. The undiscounted estimate of these costs is approximately $11 million.

Following are the components of the Superfund and Non-Superfund environmental reserves (In millions):

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2004	$ 6	$28	$34
Payments	(1)	(12)	(13)
Reclass to property, plant and equipment	—	(5)	(5)
Change in cost estimates	6	2	8
Balance at September 30, 2005	$11	$13	$24

A portion of the environmental reserves is included in Other Current Liabilities (see Note 13), with the majority of the amounts recorded in Other Liabilities (see Note 14).

The actual amount of costs or damages for which the company may be held responsible could materially exceed the foregoing estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with outside advisors that specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, the company believes that its expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on the company's business, financial condition or results of operations. In addition, in future periods, new laws and regulations, changes in the remediation plan, advances in technology and additional information about the ultimate clean-up remedy could significantly change the company's estimates. Management cannot assess the possible effect of compliance with future requirements.

Insurance

2.254

ABM INDUSTRIES INCORPORATED (OCT)

(In thousands)	2005	2004
Total current liabilities	$275,074	$254,428
Retirement plans and other non-current liabilities	25,596	25,658
Insurance claims	127,114	120,277
Total liabilities	$427,784	$400,363

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Insurance

The Company self-insures certain insurable risks such as general liability, automobile, property damage, and workers' compensation. Commercial policies are obtained to provide for $150.0 million of coverage for certain risk exposures above the self-insured retention limits (*i.e.*, deductibles). For claims incurred after November 1, 2002, substantially all of the self-insured retentions increased from $0.5 million (inclusive of legal fees) to $1.0 million (exclusive of legal fees) except for California workers' compensation insurance which increased to $2.0 million effective April 14, 2003. However, effective April 14, 2005, the deductible for California workers' compensation insurance decreased from $2.0 million to $1.0 million per occurrence, plus an additional $1.0 million annually in the aggregate, due to improvements in general insurance market conditions.

The Company uses an independent actuary to evaluate the Company's estimated claim costs and liabilities at least annually and accrues self-insurance reserves in an amount that is equal to the actuarial point estimate. Using the annual actuarial report, management develops annual insurance costs for each operation, expressed as a rate per $100 of exposure (labor and revenue) to estimate insurance costs. Additionally, management monitors new claims and claim development to assess the adequacy of the insurance reserves. The estimated future charge is intended to reflect the recent experience and trends. Trend analysis is complex and highly subjective. The interpretation of trends requires the knowledge of all factors affecting the trends that may or may not be reflective of adverse development (*e.g.*, change in regulatory requirements and change in reserving methodology). If the trends suggest that the frequency or severity of claims incurred has increased, the Company might be required to record additional expenses for self-insurance liabilities. Additionally, the Company uses third party service providers to administer its claims and the performance of the service providers and transfers between administrators can impact the cost of claims and accordingly the amounts reflected in insurance reserves.

The 2005 actuarial report covering substantially all of the Company's general liability and workers' compensation reserves was completed in the third quarter of 2005 resulting in a $5.5 million insurance benefit. The report showed favorable developments in the Company's California workers' compensation and general and auto liability claims, offset in part by adverse developments in the Company's workers' compensation claims outside of California. The $5.5 million was recorded by Corporate and was attributable to reserves for 2004 and prior years, of which $1.4 million was attributable to a correction of an overstatement of reserves at October 31, 2004. The 2005 actuarial reports covering the rest of the Company's self-insurance reserves including low deductible self-insurance programs that cover general liability expenses at malls, special event facilities and airport shuttles, as well as workers' compensation for certain employees in certain states were completed in the fourth quarter of 2005 resulting in the reduction of these reserves by $2.7 million. The $2.7 million was recorded by janitorial and Parking and was mostly attributable to reserves for 2004 and prior years.

The 2004 actuarial report completed in November 2004 indicated that there were adverse developments in the Company's insurance reserves primarily related to workers' compensation claims in the State of California during the four-year period ended October 31, 2003, for which Corporate recorded a charge of $17.2 million in the fourth quarter of 2004. The Company believes a substantial portion of the $17.2 million was related to poor claims management by a third party administrator, who no longer performs these services for the Company.

The total estimated liability for claims incurred but unpaid at October 31, 2005 and 2004 was $198.6 million and $187.9 million, respectively.

In connection with certain self-insurance programs, the Company had standby letters of credit at October 31, 2005 and 2004 supporting estimated unpaid liabilities in the amounts of $82.1 million, and $88.3 million, respectively.

Litigation

2.255

OUTBACK STEAKHOUSE, INC. (DEC)

(In thousands)	2005	2004
Total current liabilities	$436,124	$367,190
Partner deposit and accrued buyout liability	71,591	63,102
Deferred rent	55,206	44,075
Long-term debt	90,623	59,900
Guaranteed debt of franchisee	31,283	30,343
Other long-term liabilities	45,890	6,114
Total liabilities	$730,717	$570,724

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	2005	2004
Litigation	$39,000	$ —
Accrued insurance liability	6,696	4,000
Other deferred liability	194	2,114
	$45,890	$6,114

12 (In Part): Commitments and Contingencies

Litigation and Other Matters

The Company is subject to legal proceedings claims and liabilities which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Company's financial position or results of operations and cash flows.

In June 2003, in a civil case against the Company in Indiana state court alleging liability under the "dramshop" liquor liability statute, a jury returned a verdict in favor of the two plaintiffs who were injured by a drunk driver. The portion of the verdict against the Company was $39,000,000. The Company appealed the verdict to the Indiana Court of Appeals. On July 25, 2005, the Court of Appeals affirmed the verdict of the trial courts. The Company petitioned the Court of Appeals for rehearing and rehearing was denied. The Company filed a petition for transfer with the Indiana Supreme Court. On February 21, 2006, the Indiana Supreme Court granted transfer. That ruling means the Supreme Court has vacated the Court of Appeals' decision and has accepted the case for review. As of the date of this filing, the Indiana Supreme Court has not rendered any decision on the merits of the case nor indicated when or how it might rule.

The company has insurance coverage related to this case provided by its primary carrier for $21,000,000 and by an excess insurance carrier for the balance of the verdict of approximately $19,000,000. The excess insurance carrier has filed a declaratory judgment suit claiming it was not notified of the case and is therefore not liable for its portion of the verdict. The Company does not believe the excess carrier's case has any merit and is vigorously defending this case. Activity in this case has been held in abeyance pending resolution of appeals in the "dramshop" case. The Company has filed counter-claims against the excess carrier and cross-claims against the primary carrier and its third-party administrator. The Company's third-party administrator has executed an indemnification agreement indemnifying the Company against any liability resulting from the alleged failure to give notice to the excess insurance carrier.

As a result of the affirmation verdict by the Court of Appeals, the Company has recorded the $39,000,000 verdict as a non-current liability in its Consolidated Balance Sheet as well as a non-current receivable for the same amount which would be due from insurance carriers should this verdict prevail upon appeal.

Warranties

2.256

TELLABS, INC. (DEC)

(In millions)	2005	2004
Total current liabilities	$525.2	$536.0
Long-term restructuring liabilities	24.0	33.0
Income taxes	95.9	127.9
Other long-term liabilities	55.1	51.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Product Warranties

We provide warranties for all of our products. The specific terms and conditions of those warranties vary depending upon the product sold. We provide a basic limited warranty, including parts and labor, for all products except access products, for periods generally ranging from 90 days to 5 years. The basic limited warranty for access products covers parts and labor for periods generally ranging from 2 to 6 years.

Our estimate of warranty liability involved many factors, including the number of units shipped, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our recorded warranty liability and adjust the amounts as necessary. We classify the portion of our warranty liability that we expect to incur in the next 12 months as a current liability. We classify the portion of our warranty liability that we expect to incur more than 12 months in the future as a long-term liability. Our product warranty liabilities are as follows:

(In millions)	2005	2004	2003
Balance at beginning of year	$41.2	$19.5	$13.9
Accruals for product warranties issued	37.0	6.3	11.6
Settlements	(29.0)	(9.4)	(6.0)
AFC warranty liability acquired in acquisition	—	24.8	—
Balance at end of year	$49.2	$41.2	$19.5
Balance sheet classification at end of year			
Other accrued liabilities	$27.9	$21.2	$ 6.4
Other long-term liabilities	21.3	20.0	13.1
Total product warranty liabilities	$49.2	$41.2	$19.5

Asset Retirement Obligations

2.257

PEABODY ENERGY CORPORATION (DEC)

(Dollars in thousands)	2005	2004
Total current liabilities	$1,022,923	$ 774,144
Long-term debt, less current maturities	1,382,921	1,405,986
Deferred income taxes	338,488	393,266
Asset retirement obligations	399,203	396,022
Workers' compensation obligations	237,574	227,476
Accrued postretirement benefit costs	959,222	939,503
Other noncurrent liabilities	330,658	315,694
Total liabilities	$4,670,989	$4,452,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Asset Retirement Obligations

SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which was adopted by the Company on January 1, 2003 (see Note 7), addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Company records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred. The ARO asset is amortized on the units-of-production method over its expected life and the ARO liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate.

The Company also recognizes an obligation for contemporaneous reclamation liabilities incurred as a result of surface mining. Contemporaneous reclamation consists primarily of grading, topsoil replacement and revegetation of backfilled pit areas.

15) Asset Retirement Obligations

SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mine permit. The obligation and corresponding asset are recognized in the period in which the liability is incurred.

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at the credit-adjusted risk-free rate (5.81% at January 1, 2005). The Company records an ARO asset associated with the liability. The ARO asset is amortized based on the units of production method over its expected life, and the ARO liability is accreted to the projected spending date. Changes in estimates could occur due to mine plan revisions, changes in estimated costs, and changes in timing of the performance of reclamation activities. The Company also recognizes an obligation for contemporaneous reclamation liabilities incurred as a result of surface mining.

A reconciliation of the Company's liability for asset retirement obligations for the year ended December 31, 2005, is as follows:

(Dollars in thousands)	
Balance at December 31, 2004	$396,022
Liabilities incurred	24,101
Liabilities settled or disposed	(40,341)
Accretion expense	24,095
Revisions to estimate	(4,674)
Balance at December 31, 2005	$399,203

Total asset retirement obligations as of December 31, 2005, of $399.2 million consisted of $340.7 million related to locations with active mining operations and $58.5 million related to locations that are closed or inactive. In 2005, the Company recorded a $9.2 million reduction in its asset retirement obligations associated with the disposal of non-strategic properties and the assumption of the related reclamation liabilities by the purchaser.

As of December 31, 2005 and 2004, the Company had $323.6 million and $294.5 million, respectively, in surety bonds outstanding to secure reclamation obligations or activities. The amount of reclamation self-bonding in certain states in which the Company qualifies was $671.8 million and $653.3 million as of December 31, 2005 and 2004, respectively. Additionally, the Company had $0.1 million and $0.4 million of letters of credit in support of reclamation obligations or activities as of December 31, 2005 and 2004, respectively.

Deferred Credits

2.258

HEWITT ASSOCIATES, INC. (SEP)

(Dollars in thousands)	2005	2004
Total current liabilities	$ 679,541	$475,842
Long-term liabilities		
Deferred contract revenues	140,474	118,025
Debt, less current portion	222,692	121,253
Capital lease obligations, less current portion	76,477	79,982
Other long-term liabilities	127,376	83,063
Deferred income taxes, net	99,423	70,456
Total long-term liabilities	666,442	472,779
Total liabilities	$1,345,983	$948,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Revenues include fees generated from Outsourcing contracts and from Consulting services provided to the Company's clients. Revenues from sales or licensing of software are not material. The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, our fee is determinable and collectibility is reasonably assured.

The Company's Outsourcing contracts typically have three- to five-year terms for benefits services and seven- to ten-year terms for HR BPO services. The Company recognizes revenues for non-refundable, up-front implementation fees evenly over the period the related ongoing services revenues are recognized. Services provided outside the scope of the Company's Outsourcing contracts are recognized on a time-and-material or fixed-fee basis.

The Company's clients typically pay for Consulting services either on a time-and-material or fixed-fee basis. Revenues are recognized under time-and-material based arrangements monthly as services are provided. On fixed-fee engagements, revenues are recognized either as services are provided using a proportional performance method or at the completion of a project based on facts and circumstances of the client arrangement.

Losses on Outsourcing or Consulting arrangements are recognized in the period in which a loss becomes probable and the amount of the loss is reasonably estimable. Contract or project losses are determined to be the amount by which the estimated direct costs, which include any remaining deferred contract set up costs, and a portion of indirect costs exceed the estimated total revenues that will be generated by the arrangement. Estimates are monitored during the term of the arrangement and any changes to estimates are recorded in the current period and can result in either increases or decreases to income.

In connection with the Emerging Issues Task Force ("EITF") Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the Company has contracts with multiple elements primarily in its Outsourcing segment. Multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting. EITF Issue 00-21 establishes the following criteria, all of which must be met, in order for a deliverable to qualify as a separate unit of accounting:

- The delivered items have value to the client on a standalone basis
- There is objective and reliable evidence of the fair value of the undelivered items
- If the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Company.

If these criteria are not met, deliverables included in an arrangement are accounted for as a single unit of accounting and revenue is deferred until the period in which the final deliverable is provided or a predominant service level has been attained. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. Revenue is then recognized using a proportional performance method such as recognizing revenue based on transactional services delivered or on a straight-line basis (as adjusted primarily for volume changes), as appropriate.

Revenues earned in excess of billings are recorded as unbilled work in process. Billings in excess of revenues earned are recorded as advanced billings to clients, a deferred revenue liability, until services are rendered.

The Company considers the criteria established by EITF Issue No. 99-19, *Reporting Revenue Gross-as a Principal versus Net as an Agent*, in determining whether revenue should be recognized on a gross versus a net basis. In consideration of these criteria, the Company recognizes revenue, primarily on a gross-basis. Factors considered in determining if gross or net recognition is appropriate include whether the Company is primarily responsible to the client for the services, changes the delivered product, performs part of the service delivered, has discretion on vendor selection, or bears credit risk. In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, reimbursements received for out-of-pocket expenses incurred are characterized as revenues and are shown as a separate component of total revenues. Similarly, related reimbursable expenses are also shown separately within operating expenses.

Deferred Contract Costs and Deferred Contract Revenues

For long-term Outsourcing service agreements, implementation efforts are often necessary to set up clients and their human resource or benefit programs on the Company's systems and operating processes. For Outsourcing services sold separately or accounted for as a separate unit of accounting; specific, incremental and direct costs of implementation incurred prior to the services going live are deferred and amortized over the period the related ongoing services revenue is recognized. Such costs may include internal and external costs for coding or creating customizations of systems, costs for conversion of client data and costs to negotiate contract terms. For Outsourcing services that are accounted for as a combined unit of accounting; specific, incremental and direct costs of implementation, as well as ongoing service delivery costs incurred prior to revenue recognition commencing are deferred and amortized over the remaining contract services period. Implementation fees are also generally received from our clients either up front or over the ongoing services period in the fee per participant. Lump sum implementation fees received from a client are initially deferred and then recognized as revenue evenly over the contract ongoing services period. If a client terminates an Outsourcing services arrangement prior to the end of the contract, a loss on the contract may be recorded if necessary and any remaining deferred implementation revenues and costs would then be recognized into earnings through the termination date.

RESERVES—USE OF THE TERM "RESERVE"

2.259 Prior to being superseded by the APB, the Committee on Terminology of the AICPA issued four terminology bulletins. In Accounting Terminology Bulletin No. 1, *Review and Resume*, the Committee recommended that the term *reserve* be applied only to amounts of retained earnings appropriated for general or specific purposes. In practice, the term *reserve* is applied to amounts designated as valuation allowances deducted from assets or as accruals for estimated liabilities. Table 2-32 shows where the term *reserve* appears in the financial statements of the survey companies.

2.260

TABLE 2-32: USE OF TERM "RESERVE"

	Number of Companies			
	2005	2004	2003	2002
To Describe Deductions From Assets for				
Reducing inventories to LIFO cost	38	36	26	23
Inventory obsolescence	38	26	14	19
Doubtful accounts	17	13	12	13
Accumulated depreciation	4	3	3	3
Other—described	17	10	4	9
To Describe Accruals for				
Estimated expenses relating to property abandonments or discontinued operations	80	66	34	26
Environmental costs	60	45	25	18
Warranty	55	49	28	6
Insurance	46	42	21	13
Litigation	40	34	14	7
Employee benefits or compensation	13	10	3	3
Other—described	18	35	12	14

TITLE OF STOCKHOLDERS' EQUITY SECTION

2.261 Table 2-33 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet.

2.262

TABLE 2-33: TITLE OF STOCKHOLDERS' EQUITY SECTION

	2005	2004	2003	2002
Stockholders' equity	302	300	294	299
Shareholders' equity	228	236	232	222
Shareowners' equity	19	19	21	20
Shareholders' investment	8	7	8	9
Common stockholders' equity	7	6	6	5
Common shareholders' equity	4	2	5	6
Term deficit or deficiency in title	25	19	23	30
Other or no title	7	11	11	9
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

2.263 SFAS No. 129, *Disclosure of Information about Capital Structure*, states the diclosure requirements for the capital structure of an entity.

2.264 Table 2-34 summarizes the capital structures disclosed on the balance sheets of the survey companies.

2.265

TABLE 2-34: CAPITAL STRUCTURES

	2005	2004	2003	2002
Common Stock With:				
No preferred stock	548	537	516	502
One class of preferred stock	42	53	73	81
Two classes of preferred stock	7	8	9	14
Three or more classes of preferred stock	3	2	2	3
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	60	64	62	70

COMMON STOCK

2.266 Table 2-35 summarizes the reporting bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

2.267

TABLE 2-35: COMMON STOCK

	2005	2004	2003	2002
Par value stock shown at:				
Par value	576	580	570	577
Amount in excess of par	10	15	17	21
Assigned per share amount	2	6	8	1
No par value stock shown at:				
Assigned per share amount	7	10	6	4
No assigned per share amount	54	51	54	57
Issues Outstanding	**649**	**662**	**655**	**660**

PREFERRED STOCK

2.268 *SFAS No. 129* provides reporting and disclosure requirements for preferred stock. SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities. Prior to *SFAS No. 150*, many of these freestanding financial instruments were classified as equity. Some issuances of stock, such as mandatorily redeemable preferred stock, impose unconditional obligations requiring the issuer to transfer assets or issue its equity shares. *SFAS No. 150* requires an issuer to classify such financial instruments as liabilities. Examples of preferred stock issues within the scope of *SFAS No. 150* are included in the Other Noncurrent Liability section.

2.269 Table 2-36 summarizes the reporting bases of preferred stock. As with common stock, many of the survey companies present preferred stock at par value. Examples of preferred stock presentations and disclosures follow.

2.270

TABLE 2-36: PREFERRED STOCK

	Number of Companies			
	2005	2004	2003	2002
Par value stock shown at:				
Par value	25	22	30	42
Liquidation or redemption value	16	11	16	13
Fair value at issuance date	—	2	2	2
Assigned per share amount	—	—	1	3
Other	1	—	2	4
No par value stock shown at:				
Liquidation or redemption value	6	11	15	13
Assigned per share amount	3	5	9	8
Fair value at issuance date	1	1	—	1
No assigned per share amount	10	10	19	10
Number of Companies				
Preferred stock outstanding	55	61	88	93
No preferred stock outstanding	545	539	512	507
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended at Par Value

2.271

HECLA MINING COMPANY (DEC)

(In thousands, except share data)	2005	2004
Shareholders' equity		
Preferred stock, $0.25 par value, authorized 5,000,000 shares; 157,816 shares issued, liquidation preference 2005—$7,891, 2004—$10,238	$ 39	$ 39
Common stock, $0.25 par value, authorized 200,000,000 shares; issued 2005—118,602,135 shares and issued 2004—118,350,861 shares	29,651	29,588
Capital surplus	508,104	506,630
Accumulated deficit	(396,092)	(367,832)
Accumulated other comprehensive income	19,746	1,020
Less treasury stock, at cost; 8,274 common shares	(118)	(118)
Total shareholders' equity	$161,330	$169,327

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Shareholders' Equity

Preferred Stock

Our Charter authorizes us to issue 5,000,000 shares of preferred stock (Series A and B), par value $0.25 per share. The preferred stock is issuable in series with such voting rights, if any, designations, powers, preferences and other rights and such qualifications, limitations and restrictions as may be determined by our board of directors or a duly authorized committee thereof, without stockholder approval. The board may fix the number of shares constituting each series and increase or decrease the number of shares of any series.

As of December 31, 2005, there were 157,816 shares of Series B Cumulative Convertible Preferred Stock outstanding. All of the shares of our Series B Preferred Stock are listed on the New York Stock Exchange under the symbol "HLPRB." During the years ended December 31, 2004 and 2003, we entered into various agreements to acquire Series B preferred stock in exchange for newly issued shares of common stock as follows, with no exchange offerings to preferred stockholders in 2005:

	2004	2003
Number of shares of Series B preferred stock exchanged for shares of common stock	306,961	288,625
Number of shares of common stock issued	2,436,098	2,183,719
Non-cash preferred stock dividend incurred in exchange (millions of dollars)[1]	$ 10.9	$ 9.6

[1] The non-cash dividend represents the difference between the value of the common stock issued in the exchange offer and the value of the shares that were issuable under the stated conversion terms of the Series B preferred stock. The non-cash dividend had no impact on our total shareholders' equity as the offset was an increase in common stock and surplus.

Ranking

The Series B preferred stock ranks senior to our common stock and any shares of Series A Preferred Shares issued pursuant to the Rights (as defined above) with respect to payment of dividends and amounts upon liquidation, dissolution or winding up.

While any shares of Series B preferred stock are outstanding, we may not authorize the creation or issue of any class or series of stock that ranks senior to the Series B preferred stock as to dividends or upon liquidation, dissolution or winding up without the consent of the holders of 66⅔% of the outstanding shares of Series B preferred stock and any other series of preferred stock ranking on a parity with the Series B preferred stock as to dividends and upon liquidation, dissolution or winding up (a "Parity Stock"), voting as a single class without regard to series.

Dividends

Series B preferred stockholders are entitled to receive, when, as and if declared by the board of directors out of our assets legally available therefore, cumulative cash dividends at the rate per annum of $3.50 per share of Series B preferred stock. Dividends on the Series B preferred stock are payable quarterly in arrears on October 1, January 1, April 1 and July 1 of each year (and, in the case of any undeclared and unpaid dividends, at such additional times and for such interim periods, if any, as determined by the board of directors), at such annual rate. Dividends are cumulative from the date of the original issuance of the Series B preferred stock, whether or not in any dividend period or periods we have assets legally available for the payment of such dividends. Accumulations of dividends on shares of Series B preferred stock do not bear interest.

In July 2005, we paid outstanding dividends in arrears on our Series B preferred stock totaling approximately $2.3 million. Since the fourth quarter of 2004, we have declared and continue to pay our regular quarterly dividend of $0.875 per share on the outstanding Preferred B shares. In January 2006, we paid the regularly scheduled dividend on outstanding preferred stock for the fourth quarter of 2005, and have also declared dividends for the first quarter of 2006, payable April 3, 2006.

Redemption

The Series B preferred stock is redeemable at our option, in whole or in part, at $50 per share, plus, in each case, all dividends undeclared and unpaid on the Series B preferred stock up to the date fixed for redemption, upon giving notice as provided below.

Liquidation Preference

The Series B preferred stockholders are entitled to receive, in the event that we are liquidated, dissolved or wound up, whether voluntary or involuntary, $50 per share of Series B preferred stock plus an amount per share equal to all dividends undeclared and unpaid thereon to the date of final distribution to such holders (the "Liquidation Preference"), and no more. Until the Series B preferred stockholders have been paid the Liquidation Preference in full, no payment will be made to any holder of Junior Stock upon our liquidation, dissolution or winding up. The term "Junior Stock" means our common stock and any other class of our capital stock issued and outstanding that ranks junior as to the payment of dividends or amounts payable upon liquidation, dissolution and winding up to the Series B preferred stock. As of December 31, 2005 and 2004, our preferred stock had a liquidation preference of $7.9 million and $10.2 million, respectively.

Voting Rights

Except as indicated below, or except as otherwise from time to time required by applicable law, the Series B preferred stockholders have no voting rights and their consent is not required for taking any corporate action. When and if the Series B preferred stockholders are entitled to vote, each holder will be entitled to one vote per share.

The payment of the dividends in arrears in July 2005 resulted in the elimination of two director positions that were elected by the holders of Series B preferred stock, which reduced available director positions from nine to seven. As a result, in May 2005, our Board of Directors increased the number of positions from seven to nine and appointed Anthony P. Taylor and David J. Christensen, each of whom was previously a director elected by the holders of Series B preferred stock, to fill the two new director positions.

Conversion Rights

Each share of Series B preferred stock is convertible, in whole or in part at the option of the holders thereof, into shares of common stock at a conversion price of $15.55 per share of common stock (equivalent to a conversion rate of 3.2154 shares of common stock for each share of Series B preferred stock). The right to convert shares of Series B preferred stock called for redemption will terminate at the close of business on the day preceding a redemption date (unless we default in payment of the redemption price).

Preferred Stock Extended at Liquidating Value

2.272

TRIBUNE COMPANY (DEC)

(In thousands of dollars, except share data)	2005	2004
Shareholders'equity		
Series C convertible preferred stock		
Authorized: 823,568 shares; issued and outstanding: 88,519 shares (net of 354,077 treasury shares) (liquidation value $500 per share)	$ 44,260	$ 44,260
Series D-1 convertible preferred stock		
Authorized: 380,972 shares; issued and outstanding: 76,194 shares (net of 304,778 treasury shares) (liquidation value $500 per share)	38,097	38,097
Series D-2 convertible preferred stock		
Authorized: 245,100 shares; issued and outstanding: 49,020 shares (net of 196,080 treasury shares) (liquidation value $500 per share)	24,510	24,510
Common stock ($0.01 par value)		
Authorized: 1,400,000,000 shares; 390,122,184 shares outstanding at Dec. 25, 2005 and 400,514,576 shares outstanding at Dec. 26, 2004	2,270	2,373
Additional paid-in capital	6,818,533	6,916,132
Retained earnings	2,824,762	2,810,542
Treasury common stock (at cost) 83,441,765 shares in 2005 and 2004	(3,015,581)	(3,011,900)
Accumulated other comprehensive income (loss)	(11,300)	12,830
Total shareholders' equity	$ 6,725,551	$ 6,836,844

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Capital Stock and Share Purchase Plan

Under the Company's Restated Certificate of Incorporation, 12 million shares of preferred stock are authorized. Preferred stock is issuable in series under terms and conditions determined by the Company's Board of Directors.

Series B Preferred Stock

In 1989, the Company established a series of 1.6 million shares of Series B Convertible Preferred Stock and issued 1.59 million shares to the Company's ESOP. In December 2003, the Series B convertible preferred stock was converted into 15.4 million shares of common stock. Each share of the Series B preferred stock paid a cumulative dividend of 7.75% annually, had a liquidation value of $220 per share, was convertible into 16 shares of the Company's common stock and was voted with the common stock with an entitlement to 18.32 votes per preferred share.

Series C, D-1 and D-2 Convertible Preferred Stock

In connection with the June 12, 2000 merger with Times Mirror, outstanding shares of Times Mirror cumulative, non-voting preferred stock were converted into shares of Tribune preferred stock with similar terms. An additional 0.2 million shares of preferred stock, net of treasury stock, were issued due to the conversion. Series C convertible preferred stock is cumulative, non-voting preferred stock, which is entitled to annual dividends of 8%, based on liquidation value. Annual dividends for Series D-1 and D-2 were paid at the rate of 6.67%, 6.44% and 6.22% in 2005, 2004, and 2003, respectively, and will be paid at the rate of 6.91% in 2006 based on liquidation value. Dividends on Series D-1 and D-2 preferred stocks will increase ratably from 2006 until 2012 pursuant to a predetermined schedule. Series C, D-1 and D-2 convertible preferred stocks relate to Times Mirror recapitalization transactions whereby TMCT I and TMCT II were formed. Series C, D-1 and D-2 preferred stocks are convertible into the Company's common stock in 2025 and thereafter. The conversion factor is calculated by dividing $500 plus accrued and unpaid dividends by the average closing prices of the Company's common stock for the 20 trading days immediately preceding the conversion date.

Preferred Stock Extended at Redemption Value

2.273

NOVELL, INC. (OCT)

(Amounts in thousands, except share and per share data)	2005	2004
Redeemable securities		
Series B preferred stock, $.10 par value, authorized—1,000 shares; outstanding—187 and 500 shares at October 31, 2005 and 2004, respectively (at redemption value)	$ 9,350	$ 25,000
Stockholders' equity		
Series A preferred stock, $.10 par value, authorized—499,000 shares; no shares issued	—	—
Common stock, par value $.10 per share, authorized—600,000,000 shares; issued—400,993,898 and 393,061,385 shares at October 31, 2005 and 2004, respectively, outstanding—385,820,699 and 377,874,351 shares at October 31, 2005 and 2004, respectively	40,099	39,306
Additional paid-in capital	483,157	431,102
Treasury stock, at cost—15,173,199 and 15,187,034 shares at October 31, 2005 and 2004, respectively	(124,875)	(124,989)
Retained earnings	984,107	607,851
Accumulated other comprehensive income	7,444	16,180
Unearned compensation and other	(3,446)	(6,086)
Total stockholders' equity	$1,386,486	$963,364

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Summary of Significant Accounting Policies

Disclosure of Fair Value of Financial Instruments

Our financial instruments mainly consist of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, long-term investments, accounts payable, accrued expenses, Series B Preferred Stock, and the

Debentures. The carrying amounts of our cash equivalents and short-term investments, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. We periodically review the realizability of each short-term and long-term investment when impairment indicators exist with respect to the investment. If an other-than-temporary impairment of the value of the investments is deemed to exist, the carrying value of the investment is written down to its estimated fair value. We consider an impairment to be other than temporary when market evidence or issuer-specific knowledge does not reflect long-term growth to support current carrying values. The carrying amount for the Series B Preferred Stock and Debentures approximate fair value. As of October 31, 2005 and 2004, we did not hold any publicly-traded long-term equity securities. Our long-term notes receivable and the Debentures have interest rates that approximate current market rates; therefore, the carrying value approximates fair value.

Q. Redeemable Preferred Stock

On March 23, 2004, we entered into a definitive agreement with IBM in connection with IBM's previously announced $50 million investment in Novell. The primary terms of the investment were negotiated in November 2003 and involved the purchase by IBM of 1,000 shares of our Series B redeemable preferred stock ("Series B Preferred Stock") that are convertible into 8 million shares of our common stock at a conversion price of $6.25 per common share. The Series B Preferred Stock is entitled to a dividend of 2% per annum, payable quarterly in cash. Dividends on the Series B Preferred Stock during fiscal 2005 and 2004 amounted to $0.5 million and $0.4 million, respectively. Dividend payments made during fiscal 2005 and 2004 were $0.6 million and $0.3 million, respectively.

Because the fair value of our common stock of $9.46 per share on March 23, 2004 was greater than the conversion price of $6.25 per share of Series B Preferred Stock, we recorded a one-time, non-cash deemed dividend of $25.7 million pursuant to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios."

The Series B Preferred Stock is convertible at any time at the option of the holder and has a liquidation value equal to $50,000 per share. Each share of Series B Preferred Stock issued and outstanding is entitled to the number of votes equal to the number of shares of common stock into which it is convertible. The Series B Preferred Stock is senior to the common stock with respect to dividends and liquidation preferences. The Series B Preferred Stock is redeemable at our option, and by the holder only under certain change in control circumstances. Because the redemption is not certain to occur, the Series B Preferred Stock is not required to be classified as a liability, but rather is classified in the mezzanine section of the balance sheet and is stated at redemption value.

On June 17, 2004, 500 shares of Series B Preferred Stock, with a carrying value of $25.0 million, were converted into 4.0 million shares of our common stock. On September 21, 2005, 313 shares of Series B Preferred Stock, with a carrying value of $15.7 million, were converted into 2.5 million shares of our common stock.

Preferred Stock Extended at Fair Value at Issuance Date

2.274

TERRA INDUSTRIES INC. (DEC)

(In thousands)	2005	2004
Preferred shares—liquidation value of $120,000 and $137,269	$ 115,800	$ 133,069
Common stockholders' equity		
Capital stock		
Common shares, authorized 133,500 shares; 95,171 and 92,994 shares outstanding	146,994	144,531
Paid-in capital	712,671	681,639
Accumulated other comprehensive loss	(70,143)	(55,994)
Unearned compensation	(5,369)	(2,568)
Accumulated deficit	(291,250)	(308,203)
Total stockholders' equity	$ 492,903	$ 459,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Preferred Shares

The components of preferred shares outstanding at December 31:

	2005		2004	
(In thousands)	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Series A preferred shares (120,000 shares authorized, $1,000 per share liquidation value)	120,000	$115,800	120,000	$115,800
Series B preferred shares (750,000 shares authorized, $100 per share liquidation value)	—	—	172,690	17,269
Total		$115,800		$133,069

During the 2004 fourth quarter, the Company issued 120,000 shares of cumulative convertible perpetual Series A preferred shares with a liquidation value of $1,000 per share for net proceeds of $115.8 million. Cumulative dividends of $10.625 per share are payable quarterly. The Series A preferred shares are not redeemable, but are convertible into the Company's common stock at the option of the holder for a conversion price of $9.96 per common share. The Series A shares may automatically be converted to common shares after December 20, 2009 if the closing price for the Company's common shares exceeds 140% of the conversion price for any twenty days within a consecutive thirty day period prior to such conversion. Upon the occurrence of a fundamental change to the Company's capital structure, including a change of control, merger, or sale of the Company, holders of the Series A preferred shares may require the Company to purchase any or all of their shares at a price equal to their liquidation value plus any accumulated, but unpaid, dividends. The Company also has the right, under certain conditions, to require holders of the Series A preferred shares to exchange their shares for convertible subordinated debentures with similar terms.

In connection with the acquisition of Mississippi Chemical Corporation on December 21, 2004, Terra issued 172,690 Series B preferred shares with a liquidation value of $100 per share. During the third quarter of 2005, the Company converted the Series B preferred shares to common stock.

14 (In Part): Financial Instruments

The following table represents the carrying amounts and estimated fair values of Terra's financial instruments at December 31, 2005 and 2004. SFAS 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2005		2004	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and short-term investments	$ 86.4	$ 86.4	$233.8	$233.8
Receivables	206.4	206.4	150.3	150.3
Equity and other investments	183.9	183.9	215.9	215.9
Financial liabilities				
Long-term debt	331.3	322.7	435.2	455.4
Preferred shares	115.8	102.6	133.1	133.1

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Preferred shares: Preferred shares are valued on the basis of market quotes, when available and management estimates based on comparisons with similar instruments that are publicly traded.

ADDITIONAL PAID-IN CAPITAL

2.275 Table 2-37 lists the balance sheet captions used to describe additional paid-in capital. Examples of descriptive captions for additional paid-in capital are shown in this section in connection with discussions of the other components of stockholders' equity.

2.276

TABLE 2-37: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	2005	2004	2003	2002
Additional paid-in capital	330	327	313	305
Capital in excess of par or stated value	106	105	111	113
Paid-in capital	57	53	59	57
Additional capital, or other capital	23	22	23	23
Capital surplus	18	17	17	17
Paid-in surplus	—	—	—	—
Other captions	9	16	12	14
	543	**540**	**535**	**529**
No additional paid-in capital account	57	60	65	71
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

2.277 Table 2-38 indicates that most of the survey companies use the term *retained earnings.* Examples of descriptive captions used for retained earnings are shown in connection with discussions of other components of stockholders' equity.

2.278

TABLE 2-38: RETAINED EARNINGS—CAPTION TITLE

	2005	2004	2003	2002
Retained earnings	473	469	461	457
Retained earnings with additional words	4	3	4	4
Earnings with additional words	20	22	24	24
Income with additional words	7	6	8	9
Retained earnings (deficit)	21	18	23	36
Accumulated deficit	72	80	78	68
Other	3	2	2	2
Total Companies	**600**	**600**	**600**	**600**

ACCUMULATED OTHER COMPREHENSIVE INCOME

2.279 SFAS No. 130, *Reporting Comprehensive Income*, requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances, by component, included in accumulated other comprehensive income must be disclosed either in the equity section of the balance sheet, or in a statement of changes of stockholders' equity, or in the notes to the financial statements.

2.280 Table 2-39 summarizes the captions used to describe comprehensive income in the stockholders' equity section of the balance sheet.

2.281 Table 2-40 shows where accumulated component balances are presented.

2.282 Examples showing the disclosure of accumulated balances for other comprehensive income items follow.

2.283

TABLE 2-39: ACCUMULATED OTHER COMPREHENSIVE INCOME—BALANCE SHEET CAPTION

	2005	2004	2003	2002
Accumulated other comprehensive loss	212	215	245	304
Accumulated other comprehensive income	179	174	99	91
Accumulated other comprehensive income (loss)	116	103	160	116
Accumulated other non-owner changes in equity	6	6	7	5
Other captions	11	18	13	10
	524	**516**	**524**	**526**
Accumulated balance by component presented	53	51	50	49
	577	**567**	**574**	**575**
No accumulated other comprehensive income	23	33	26	25
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Accumulated Balances by Component Presented				
Cumulative translation adjustments	46	41	47	35
Minimum pension liability adjustments	41	38	39	31
Unrealized losses/gains on certain investments	26	26	25	25
Changes in fair value of derivatives	32	24	29	19

2.284

TABLE 2-40: ACCUMULATED OTHER COMPREHENSIVE INCOME—PRESENTATION OF COMPONENT BALANCES

	2005	2004	2003	2002
Notes to financial statements	327	305	278	215
Statement of changes in stockholders' equity	87	90	113	191
Stockholders' equity section of the balance sheet	53	51	50	49
Statement of comprehensive income	12	9	8	7
Component balances not presented	98	112	125	113
	577	**567**	**574**	**575**
No accumulated other comprehensive income	23	33	26	25
Total Companies	**600**	**600**	**600**	**600**

Notes to Financial Statements

2.285

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

(Millions of dollars except per share data)	2005	2004
Shareholders' equity		
Common stock (par value $1 per share; issued 2005 and 2004—249,455,584 shares)	$ 249.4	$ 249.4
Capital in excess of par value	603.6	551.8
Retained earnings	5,317.2	4,887.1
Accumulated other comprehensive income (loss)	(433.2)	(440.7)
Treasury stock, at cost (2005—27,557,351; 2004—22,153,707 shares)	(1,161.5)	(764.8)
Shares in trust (2004—1,527,101 shares)	—	(38.8)
Total shareholders' equity	$4,575.5	$4,444.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

20 (In Part): Supplemental Information

Accumulated Other Comprehensive Income (Loss)

	2005	2004
(Loss) gain on derivatives	$ (6.4)	$ (2.8)
Unrealized gain on investment	40.6	27.4
Minimum pension liability adjustment	(272.4)	(258.1)
Cumulative translation adjustments	(195.0)	(207.2)
	$(433.2)	$(440.7)

2.286

WYETH (DEC)

(In thousands)	2005	2004
Stockholders' equity		
$2.00 convertible preferred stock, par value $2.50 per share; 5,000,000 shares authorized	$ 37	$ 40
Common stock, par value $0.33 1/3 per share; 2,400,000,000 shares authorized (1,343,349,460 and 1,335,091,774 issued and outstanding, net of 79,112,368 and 87,319,402 treasury shares at par, for 2005 and 2004, respectively)	447,783	445,031
Additional paid-in capital	5,097,228	4,817,024
Retained earnings	6,514,046	4,118,656
Accumulated other comprehensive income (loss)	(64,725)	467,152
Total stockholders' equity	$11,994,369	$9,847,903

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, net unrealized gains (losses) on derivative contracts, net unrealized gains (losses) on marketable securities and minimum pension liability adjustments. The following table sets forth the changes in each component of Accumulated other comprehensive income (loss):

(In thousands)	Foreign Currency Translation Adjustments(1)	Net Unrealized Gains (Losses) on Derivative Contracts(2)	Net Unrealized Gains (Losses) on Marketable Securities(2)	Minimum Pension Liability Adjustments(2)	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2003	$(624,866)	$(14,267)	$531,253	$(47,691)	$(155,571)
Period change(3)	691,362	(32,887)	(507,334)	(22,057)	129,084
Balance December 31, 2003	66,496	(47,154)	23,919	(69,748)	(26,487)
Period change	451,892	10,354	(8,226)	39,619	493,639
Balance December 31, 2004	518,388	(36,800)	15,693	(30,129)	467,152
Period change	(492,784)	32,518	(4,128)	(67,483)	(531,877)
Balance December 31, 2005	$ 25,604	$ (4,282)	$ 11,565	$(97,612)	$ (64,725)

(1) Income taxes are generally not provided for foreign currency translation adjustments, as such adjustments relate to permanent investments in international subsidiaries.

(2) Deferred income tax assets (liabilities) provided for net unrealized (losses) gains on derivative contracts at December 31, 2005, 2004 and 2003 were $2,306, $17,894 and $24,300, respectively; for net unrealized gain on marketable securities at December 31, 2005, 2004 and 2003 were $(5,259), $(2,141) and $(6,144), respectively; and for minimum pension liability adjustments at December 31, 2005, 2004 and 2003 were $47,119, $17,737 and $31,341, respectively.

(3) 2003 period change for net unrealized gains (losses) on marketable securities includes a realized gain on the sale of Amgen common stock reclassified to net income of $515,114.

Statement of Changes in Stockholders' Equity

2.287

AMETEK, INC. (DEC)

Consolidated Statement of Stockholders' Equity

(In thousands)	2005 Comprehensive Income	2005 Stockholders' Equity	2004 Comprehensive Income	2004 Stockholders' Equity	2003 Comprehensive Income	2003 Stockholders' Equity
Capital stock						
Preferred stock, $.01 par value		$ —		$ —		$ —
Common stock, $.01 par value						
Balance at the beginning of the year		704		690		678
Shares issued		13		14		12
Balance at the end of the year		717		704		690
Capital in excess of par value						
Balance at the beginning of the year		52,182		32,849		13,706
Issuance of common stock under employee stock plans		14,099		12,773		14,743
Tax benefits from exercise of stock options		12,032		6,560		4,400
Balance at the end of the year		78,313		52,182		32,849
Retained earnings						
Balance at the beginning of the year		640,856		544,422		464,731
Net income	$140,643	140,643	$112,711	112,711	$ 87,815	87,815
Cash dividends paid		(16,814)		(16,277)		(8,124)
Balance at the end of the year		764,685		640,856		544,422
Accumulated other comprehensive income						
Foreign currency translation:						
Balance at the beginning of the year		(2,438)		(12,927)		(22,429)
Translation adjustments, net of tax of $195 in 2005	(9,756)		9,032		9,063	
(Loss) gain on net investment hedges, net of tax of $1,975 in 2005	(5,644)		1,457		439	
	(15,400)	(15,400)	10,489	10,489	9,502	9,502
Balance at the end of the year		(17,838)		(2,438)		(12,927)
Minimum pension liability adjustment:						
Balance at the beginning of the year		(8,450)		(7,670)		(12,280)
Adjustments during the year, net of tax of $1,820, $4,552 and $4,130 in 2005, 2004, and 2003, respectively	5,070	5,070	(780)	(780)	4,610	4,610
Balance at the end of the year		(3,380)		(8,450)		(7,670)
Unrealized holding gain (loss) on available-for-sale securities:						
Balance at the beginning of the year		1,245		1,401		(10)
(Increase) decrease during the year, net of tax benefit of $162, $670, and $754 in 2005, 2004, and 2003, respectively	(943)	(943)	(156)	(156)	1,411	1,411
Balance at the end of the year		302		1,245		1,401
Total other comprehensive income for the year	(11,273)		9,553		15,523	
Total comprehensive income for the year	$129,370		$122,264		$103,338	
Accumulated other comprehensive loss at the end of the year		(20,916)		(9,643)		(19,196)
Treasury stock						
Balance at the beginning of the year		(24,517)		(29,635)		(24,215)
Issuance of common stock under employee stock plans		7,270		5,118		428
Purchase of treasury stock		—		—		(5,848)
Balance at the end of the year		(17,247)		(24,517)		(29,635)
Total Stockholders' equity		$805,552		$659,582		$529,130

2.288

FORD MOTOR COMPANY (DEC)

Consolidated Statement of Stockholders' Equity

				Accumulated Other Comprehensive Income/(Loss)				
(In millions)	Capital Stock	Capital in Excess of Par Value of Stock	Retained Earnings	Foreign Currency Translation	Minimum Pension Liability	Derivative Instruments and Other	Other	Total
Year ended December 31, 2003								
Balance at beginning of year	$19	$5,420	$ 8,659	$(1,291)	$(5,776)	$ 536	$(1,977)	$ 5,590
Comprehensive income/(loss)								
Net income			495					495
Foreign currency translation				3,075				3,075
Net gain/(loss) on derivative instruments (net of tax of $430)				(191)		989		798
Minimum pension liability (net of tax of $1,208)					2,243			2,243
Net holding gain/(loss) (net of tax of $1)						1		1
Comprehensive income/(loss)								6,612
Common Stock issued for employee benefit plans and other		(46)						(46)
ESOP loan and treasury stock							228	228
Cash dividends			(733)					(733)
Balance at end of year	$19	$5,374	$ 8,421	$ 1,593	$(3,533)	$1,526	$(1,749)	$ 11,651
Year ended December 31, 2004								
Balance at beginning of year	$19	$5,374	$ 8,421	$ 1,593	$(3,533)	$1,526	$(1,749)	$ 11,651
Comprehensive income/(loss)								
Net income			3,487					3,487
Foreign currency translation				2,352				2,352
Net gain/(loss) on derivative instruments (net of tax of $98)				(121)		(62)		(183)
Minimum pension liability (net of tax $255)					(473)			(473)
Net holding gain/(loss) (net of tax of $13)						(24)		(24)
Comprehensive income/(loss)								5,159
Common stock issued for employee benefit plans and other		(53)						(53)
ESOP loan and Treasury stock						21		21
Cash dividends			(733)					(733)
Balance at end of year	$19	$5,321	$11,175	$ 3,824	$(4,006)	$1,440	$(1,728)	$ 16,045
Year ended December 31, 2005								
Balance at beginning of year	$19	$5,321	$11,175	$ 3,824	$(4,006)	$1,440	$(1,728)	$16,045
Comprehensive income/(loss)								
Net income			2,024					2,024
Foreign currency translation				(3,446)				(3,446)
Net gain/(loss) on derivative instruments (net of tax of $501)				284		(1,214)		(930)
Minimum pension liability (net of tax of $210)					(390)			(390)
Net holding gain/(loss) (net of tax of $29)						(54)		(54)
Comprehensive income/(loss)								(2,796)
Common stock issued for employee benefit plans and other		(449)				(449)		
ESOP loan and treasury stock						895	895	
Cash dividends			(738)					(738)
Balance at end of year	$19	$4,872	$12,461	$ 662	$(4,396)	$ 172	$ (833)	$(12,957)

Equity Section of Balance Sheet

2.289

AMERICAN STANDARD COMPANIES INC. (DEC)

(Amounts in millions)	2005	2004
Shareholders' equity		
Preferred stock, 2,000,000 shares authorized; none issued and outstanding	$ —	$ —
Common stock, $.01 par value, 560,000,000 shares authorized; shares issued: 251,769,794 in 2005; 251,768,741 in 2004; and shares outstanding: 206,741,396 in 2005; 214,947,988 in 2004	2.5	2.5
Capital surplus	834.4	794.5
Treasury stock, at cost: 45,028,398 shares in 2005; 36,820,753 shares in 2004	(1,181.4)	(760.1)
Retained earnings	1,576.5	1,146.6
Accumulated other comprehensive income		
Deferred gain on hedge contracts, net of tax	20.9	9.3
Foreign currency translation effects	(212.6)	(102.8)
Minimum pension liability adjustment, net of tax	(117.8)	(159.7)
Total shareholders' equity	$ 922.5	$ 930.3

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Comprehensive Income

Comprehensive income consists of net income, deferred gains or losses on hedge contracts, foreign currency translation adjustments and minimum pension liability adjustments, and is presented in the Consolidated Statement of Shareholders' Equity and Comprehensive Income. The Company's investments in its foreign subsidiaries are considered to be permanently invested and no provision for income taxes on the related foreign exchange translation adjustments of those subsidiaries has been recorded.

2.290

BRUNSWICK CORPORATION (DEC)

(In millions, except per share data)	2005	2004
Shareholders' equity		
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares	$ 76.9	$ 76.9
Additional paid-in capital	368.3	358.8
Retained earnings	1,741.9	1,413.7
Treasury stock, at cost: 6,881,000 and 5,709,000 shares	(136.0)	(76.5)
Unearned compensation and other	(6.2)	(6.3)
Accumulated other comprehensive income (loss), net of tax		
Foreign currency translation	14.1	32.2
Minimum pension liability	(88.0)	(97.7)
Unrealized investment gains (losses)	(0.1)	23.2
Unrealized gains (losses) on derivatives	7.9	(12.0)
Total accumulated other comprehensive loss	(66.1)	(54.3)
Shareholders' equity	$1,978.8	$1,712.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Comprehensive Income

Accumulated other comprehensive income (loss) includes minimum pension liability adjustments, currency translation adjustments and unrealized derivative and investment gains and losses. The net effect of these items reduced Shareholders' equity on a cumulative basis by $66.1 million at year-end 2005 and $54.3 million at year-end 2004. The $11.8 million change from 2004 to 2005 is primarily due to the change in unrealized investment gains of $23.3 million due to the sale of marketable equity securities and unfavorable foreign currency translation adjustments of $18.1 million, partially offset by unrealized gains on derivatives of $19.9 million. The tax effect included in Accumulated other comprehensive income (loss) was $43.0 million and $31.7 million for the years ended December 31, 2005 and 2004, respectively.

TREASURY STOCK

2.291 APB Opinion No. 6, *Status of Accounting Research Bulletins*, discusses the balance sheet presentation of treasury stock. As shown in Table 2-41, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

2.292 Examples of treasury stock presentations follow.

2.293

TABLE 2-41: TREASURY STOCK—BALANCE SHEET PRESENTATION

	2005	2004	2003	2002
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	364	363	370	365
Cost of treasury stock deducted from stock of the same class	9	18	14	16
Par or stated value of treasury stock deducted from issued stock of the same class	9	10	12	14
Other	4	7	2	1
Total Presentations	**386**	**398**	**398**	**396**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	1	—	2	1
Par or stated value of treasury stock deducted from issued stock of the same class	—	1	—	2
Other	1	1	2	2
Total Presentations	**2**	**2**	**4**	**5**
Number of Companies				
Disclosing treasury stock	388	398	399	397
Not disclosing treasury stock	212	202	201	203
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

2.294

SCHERING-PLOUGH CORPORATION (DEC)

(Amounts in millions, except per share figures)	2005	2004
Shareholders' equity		
Mandatory convertible preferred shares—$1 par value; issued: 29; $50 per share face value	$1,438	$1,438
Common shares—authorized shares: 2,400, $.50 par value; issued: 2,030	1,015	1,015
Paid-in capital	1,416	1,234
Retained earnings	9,472	9,613
Accumulated other comprehensive income	(516)	(300)
Total	12,825	13,000
Less treasury shares: 2005, 550; 2004, 555; at cost	5,438	5,444
Total shareholders' equity	$7,387	$7,556

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

14 (In Part): Shareholders' Equity

Treasury Stock

A summary of treasury share transactions for the years ended December 31 is as follows:

(Shares in millions)	2005	2004	2003
Share balance at January 1	555	559	562
Shares issued under stock incentive plans	(5)	(4)	(3)
Share balance at December 31	550	555	559

2.295

SUPERVALU INC. (FEB)

(In thousands, except per share data)	2005	2004
Stockholders' equity		
Common stock, $1.00 par value: authorized 400,000 shares shares issued, 150,670 in 2005 and 2004	$ 150,670	$ 150,670
Capital in excess of par value	116,047	102,352
Accumulated other comprehensive losses	(104,581)	(98,732)
Retained earnings	2,658,012	2,353,575
Treasury stock, at cost, 15,192 shares in 2005 and 15,910 shares in 2004	(309,587)	(298,291)
Total stockholders' equity	$2,510,561	$2,209,574

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Treasury Stock Purchase Program

In October 2001, the Board of Directors authorized a treasury stock purchase program under which the company was authorized to purchase up to 5.0 million shares of the company's common stock for re-issuance upon the exercise of employee stock options and for other compensation programs utilizing the company's stock. In fiscal 2002, the company purchased 1.3 million shares under the program at an average cost of $22.16 per share. In fiscal 2003, the company purchased 1.5 million shares under the program at an average cost of $27.94 per share. In fiscal 2004, the company purchased 0.6 million shares under the program at an average cost of $23.80 per share. In fiscal 2005, the company completed the program by purchasing the remaining 1.6 million shares under the program at an average cost of $28.45 per share.

In May 2004, the Board of Directors authorized a treasury stock purchase program under which the company is authorized to purchase up to 5.0 million shares of the company's common stock for reissuance upon the exercise of employee stock options and for other compensation programs utilizing the company's stock. In fiscal 2005, the company purchased approximately 0.4 million shares under the program at an average cost of $27.73 per share. As of February 26, 2005, approximately 4.6 million shares remained available for purchase under this program.

Par Value of Treasury Stock Deducted From Issued Stock

2.296

VF CORPORATION (DEC)

Consolidated Balance Sheets

(In thousands, except share amounts)	2005	2004
Common stockholders' equity		
Common Stock, stated value $1; shares authorized, 300,000,000; shares outstanding, 110,107,854 in 2005 and 111,388,353 In 2004	$ 110,108	$ 111,388
Additional paid-in capital	1,277,486	1,087,641
Accumulated other comprehensive income (loss)	(164,802)	(113,071)
Retained earnings	1,585,421	1,427,283
Total common stockholders' equity	$2,808,213	$2,513,241

Consolidated Statements of Common Stockholders' Equity

(In thousands)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance, December 2002	$108,525	$ 930,132	$(214,141)	$ 833,332
Net income	—	—	—	397,933
Cash dividends:				
Common stock	—	—	—	(109,020)
Series B redeemable preferred stock	—	—	—	(2,238)
Conversion of preferred stock	358	—	—	6,556
Purchase of treasury stock	(1,680)	—	—	(59,720)
Stock compensation plans, net	943	34,858	—	(333)
Common stock held in trust for deferred compensation plans	24	—	—	1,092
Foreign currency translation	—	—	48,843	—
Minimum pension liability adjustment	—	—	(32,356)	—
Derivative financial instruments	—	—	819	—
Unrealized gains on marketable securities	—	—	7,380	—
Balance, December 2003	108,170	964,990	(189,455)	1,067,602
Net income	—	—	—	474,702
Cash dividends:				
Common stock	—	—	—	(115,900)
Series B redeemable preferred stock	—	—	—	(1,831)
Conversion of preferred stock	205	—	—	3,729
Stock compensation plans, net	3,026	122,651	—	(273)
Common stock held in trust for deferred compensation plans	(13)	—	—	(746)
Foreign currency translation	—	—	30,069	—
Minimum pension liability adjustment	—	—	41,712	—
Derivative financial instruments	—	—	(691)	—
Unrealized gains on marketable securities	—	—	5,294	—
Balance, December 2004	$111,388	$1,087,641	$(113,071)	$1,427,283

(continued)

(In thousands)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance, December 2004	$111,388	$1,087,641	$(113,071)	$1,427,283
Net income	—	—	—	$ 506,702
Cash dividends:				
Common stock	—	—	—	(122,480)
Series B redeemable preferred stock	—	—	—	(1,636)
Conversion of preferred stock	141	—	—	-2,584
Purchase of treasury stock	(4,000)	—	—	(225,003)
Change in accounting policy for stock-based compensation	—	20,477	—	—
Stock compensation plans, net	2,592	169,368	—	(1,276)
Common stock held in trust for deferred compensation plans	(13)	—	—	(753)
Foreign currency translation	—	—	(40,633)	—
Minimum pension liability adjustment	—	—	(24,054)	—
Derivative financial instruments	—	—	12,437	—
Unrealized gains on marketable securities	—	—	519	—
Balance, December 2005	$110,108	$1,277,486	$(164,802)	$1,585,421

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O (In Part): Capital

Common Stock outstanding is net of shares held in treasury, and in substance retired. There were 4,962,478 treasury shares at the end of 2005, 1,098,172 at the end of 2004 and 1,297,953 at the end of 2003. The excess of the cost of treasury shares acquired over the $1 per share stated value of Common Stock is deducted from Retained Earnings. In addition, 269,043 shares of VF Common Stock at the end of 2005, 256,088 shares at the end of 2004 and 242,443 shares at the end of 2003 were held in trust for deferred compensation plans. These additional shares are treated for financial reporting purposes as treasury shares at a cost of $9.9 million, $9.2 million and $8.4 million at the end of 2005, 2004 and 2003, respectively.

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

2.297 Many of the survey companies present accounts other than Capital Stock, Additional Paid-in Capital, Retained Earnings, Accumulated Other Comprehensive Income, and Treasury Stock in the stockholders' equity section of the balance sheet. Other stockholders' equity accounts appearing on the balance sheets of the survey companies include, but are not limited to, guarantees of ESOP debt, unearned or deferred compensation related to employee stock award plans, and amounts owed to a company by employees for loans to buy company stock.

2.298 Table 2-42 shows the number of survey company balance sheets presenting other stockholders' equity accounts. Cumulative translation adjustments, unrealized losses/gains on certain investments, and minimum pension liability adjustments are all *other comprehensive income* items which are included in Table 2-40 under "Accumulated Other Comprehensive Income—Presentation of Component Balances."

2.299 299 survey companies disclosed that certain stock purchase rights have been distributed to common shareholders. A majority of the rights enable the holders 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. Three survey companies either adopted a new plan or extended a plan that had or was about to expire. Six survey companies either cancelled or chose not to extend a plan that expired.

2.300 Examples showing the presentation of other stockholders' equity accounts follow.

2.301

TABLE 2-42: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	2005	2004	2003	2002
Unearned compensation	230	229	194	169
Warrants	21	25	23	17
Guarantees of ESOP debt	20	24	26	32
Employee benefit trusts	19	23	18	20
Receivables from sale of stock	14	21	23	25

Unearned Compensation Relating to Stock Award Plans

2.302

CENDANT CORPORATION (DEC)

(In millions, except share data)	2005	2004
Stockholders' equity		
Preferred stock, $.01 par value—authorized 10 million shares; none issued and outstanding	$ —	$ —
CD common stock, $.01 par value—authorized 2 billion shares; issued 1,350,852,215 and 1,333,462,545 shares	14	13
Additional paid-in capital	12,449	12,091
Deferred compensation	(440)	(301)
Retained earnings	5,946	6,179
Accumulated other comprehensive income	40	274
CD treasury stock, at cost—339,246,211 and 282,135,978 shares	(6,718)	(5,561)
Total stockholders' equity	$11,291	$12,695

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

19 (In Part): Stock-Based Compensation

The Company may grant stock options, stock appreciation rights, restricted shares and restricted stock units ("RSUs") to its employees, including directors and officers of the Company and its affiliates. Beginning in 2003, the Company changed the method by which it provides stock-based compensation to its employees by significantly reducing the number of stock options granted and instead, issuing RSUs as a form of compensation. The Company is authorized to grant up to 318 million shares of its common stock under its active stock plans and at December 31, 2005, approximately 123 million shares were available for future grants under the terms of these plans.

Restricted Stock Units

RSUs granted by the Company entitle the employee to receive one share of Cendant common stock upon vesting. RSUs granted in 2003 vest ratably over a four-year term. In 2004, the Company adopted performance and time vesting criteria for RSU grants. The predetermined performance criteria determine the number of RSUs that will ultimately vest and are based on the growth of the Company's earnings and cash flows over the vesting period of the respective award. The number of RSUs that will ultimately vest may range from 0% to 200% of the base award. Vesting occurs over a four-year period, but cannot exceed 25% of the base award in each of the three years following the grant date. The annual activity related to the Company's RSU plan consisted of:

	2005		2004		2003	
	Number of RSUs	Weighted Average Grant Price	Number of RSUs	Weighted Average Grant Price	Number of RSUs	Weighted Average Grant Price
Balance at beginning of year	16	$20.85	6	$13.98	—	$ —
Granted at fair market value[a]	14	20.19	13	23.16	6	13.98
Granted in connection with PHH spin-off[b]	1	(*)	—	—	—	—
Vested	(3)	19.48	(2)	13.97	—	—
Canceled	(5)	20.90	(1)	17.02	—	—
Balance at end of year	23	$20.65	16	$20.85	6	$13.98

(*) Not meaningful.

(a) In 2004 and 2005, reflects the maximum number of RSUs assuming achievement of all performance and time vesting criteria.

(b) As a result of the spin-off of PHH, the closing price of Cendant common stock was adjusted downward by $1.10 on January 31, 2005. In order to provide an equitable adjustment to holders of its RSUs, the Company granted incremental RSUs to achieve a balance of 1.0477 RSUs outstanding subsequent to the spin-off for each RSU outstanding prior to the spin-off.

During 2005, 2004 and 2003, the Company recorded pretax compensation expense in connection with these RSUs of (i) $61 million, $37 million and $13 million, respectively including within general and administrative expenses, and (ii) $3 million, $7 million and $2 million, respectively, included within discontinued operations. The related deferred compensation balance is recorded on the Company's Consolidated Balance Sheets as a reduction to additional paid-in capital and approximated $440 million and $301 million as of December 31, 2005 and 2004, respectively. The Company will amortize the deferred compensation balance as of December 31, 2005 to expense over the remaining vesting periods of the respective RSUs and based on the estimated performance goals of the award the Company believes it will ultimately achieve. Currently, such amortization expense is predicated on the base award.

As a result of the contemplated separation plan, approximately 13 million of the RSUs outstanding at December 31, 2005 are expected to convert into shares of the new Real Estate Services, Hospitality Services, Travel Distribution and Vehicle Rental companies based upon the pro rata market values of each new company. An additional 10 million RSUs are expected to be cancelled in connection with the separation plan.

2.303

NETWORK APPLIANCE, INC. (APR)

(In thousands, except per share amounts)	2005	2004
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000 shares authorized; shares outstanding: none in 2005 and 2004	$ —	$ —
Common stock, $0.001 par value; 880,000 shares authorized: shares issued: 381,509 in 2005 and 364,335 in 2004	381	364
Additional paid-in capital	1,347,352	1,138,158
Treasury stock (14,566 shares in 2005, 6,853 shares in 2004)	(329,075)	(136,172)
Deferred stock compensation	(15,782)	(23,348)
Retained earnings	661,978	436,224
Accumulated other comprehensive income (loss)	(4,050)	622
Total stockholders' equity	$1,660,804	$1,415,848

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar and share amounts in thousands)

2 (In Part): Significant Accounting Policies

Stock-Based Compensation (In Part)

We account for stock-based compensation in accordance with the provisions of APB No. 25, "*Accounting for Stock Issued to Employees*," and comply with the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosures.*" Deferred compensation recognized under APB No. 25 is amortized ratably to expense over the vesting periods. We account for stock options issued to nonemployees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18 "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*" under the fair-value-based method.

We adopted the disclosure-only provisions of SFAS No. 123, and accordingly, no expense has been recognized for options granted to employees under the various option plans described under Note 6. We amortize deferred stock-based compensation ratably over the vesting periods of the applicable stock purchase rights, restricted stocks, and stock options, generally four years. Deferred stock compensation under APB No. 25 and pro forma net income (loss) under the provisions of SFAS No. 123 are adjusted to reflect cancellations and forfeitures due to employee terminations as they occur.

6 (In Part): Stockholders' Equity

Deferred Stock Compensation

Deferred stock compensation is recorded for the grant of stock awards or shares of restricted stock to employees at exercise prices deemed to be less than the fair value of our common stock on the grant date. Deferred stock compensation is also recorded for retention escrow shares withheld in accordance with the merger agreement; see Note 11. Deferred stock compensation is adjusted to reflect cancellations and forfeitures due to employee terminations as they occur. We recorded $1,401, $28,617, and $1,171 of deferred stock compensation in fiscal 2005, 2004 and 2003, respectively, primarily related to unvested options assumed and retention escrow shares withheld in the Spinnaker acquisition, restricted stock awards to certain employees, and the grant of stock options below fair value to certain highly compensated employees. The fiscal 2004 deferred stock compensation was higher due to unvested options assumed and retention escrow shares withheld in the Spinnaker acquisition totaling $25,892. We reversed $1,247, $3,235 and $1,612 of deferred compensation in fiscal 2005, 2004, and 2003, respectively, due to employee terminations. The reversals were primarily related to the forfeiture of unvested options assumed in the WebManage and Spinnaker acquisitions as a result of employee terminations.

Under terms of the 1995 Plan, highly compensated employees as defined by our management are eligible to contribute between $15 and $75 in annual salary for the rights to be granted nonqualified stock options. The exercise price discount from fair market value, which is equal to the amount of salary contributed, has been recorded as deferred stock compensation expense. The deferred stock compensation expense is amortized ratably over a one-year period. Additionally, under the 1995 Stock Issuance Program, certain eligible persons may be issued shares of common stock directly. During fiscal 2005 and 2004, 10 and 120 shares, respectively, of restricted stock awards were issued to certain employees. The exercise price discount from fair market value of these shares has been recorded as deferred stock compensation expense, which was being amortized ratably over its respective vesting periods, between three to four years. During fiscal 2005, 5 shares of restricted stock and 3 shares of Spinnaker restricted stock units were repurchased and canceled pursuant to employee terminations.

Under terms of the acquisition agreement with Orca, we released shares of common stock to former Orca shareholders upon Orca's meeting certain performance criteria. The fair market values of these shares were measured on the date the performance criteria were met and were recognized as stock compensation. During fiscal 2003, we released an additional 99 shares of common stock, valued in the aggregate at $921. There are no additional performance milestones remaining.

We recorded $428, $498, and $748 in compensation expense in fiscal 2005, 2004, and 2003, respectively, for the fair value of options granted to a member of the Board of Directors in recognition for services performed outside of the normal capacity of a board member. During fiscal 2002, 100 common shares under the 1995 Plan were granted at an exercise price of $15.32 per share, the fair market value per share on the grant date. The option has a term of 10 years measured from the grant date, subject to earlier termination following his cessation of board service and will vest in a series of 48 successive equal monthly installments upon his completion of each month of board service over the 48-month period measured from the grant date.

We recorded $7,720, $3,397 and $1,973 in compensation expense for fiscal 2005, 2004, and 2003, respectively, primarily related to the amortization of deferred stock compensation from unvested options assumed in the WebManage and Spinnaker acquisitions, the retention escrow shares relative to Spinnaker, the grant of stock options to certain highly compensated employees below fair value at the date of grant and the award of restricted stock to certain employees. Based on deferred stock compensation recorded at April 30, 2005, estimated future deferred stock compensation amortization for fiscal 2006, 2007, and 2008 are expected to be $6,765, $5,292, and $3,727 respectively, and none thereafter.

11 (In Part): Business Combination

On February 18, 2004, we acquired Spinnaker for approximately $305,523 (including transaction costs of $2,985) in an all-stock transaction, through the merger of Nagano Sub, Inc., a wholly owned subsidiary of Network Appliance, with and into Spinnaker (the Merger).

The total purchase price and allocation among the fair value of tangible and intangible assets and liabilities acquired in the Spinnaker transaction (including purchased in-process technology) are summarized as follows (*in thousands*):

	Spinnaker
Total purchase price	
Value of shares issued	259,518
Value of options assumed	43,094
Transaction costs	2,985
	$305;597

		Amortization Period (Years)
Purchase price allocation		
Fair value of tangible assets acquired	$ 4,771	
Intangible assets		
Existing technology	17,160	5
Trademarks/tradenames	280	3
Customer contracts/relationships	1,100	1.5
Covenants not to compete	7,610	1.5
Goodwill	243,604	
In-process R&D	4,940	Expensed
Fair value of liabilities assumed	(7,032)	
Deferred stock compensation	25,892	
Deferred income taxes	7,272	
	$305,597	

In accordance with FASB interpretation No. 44, "*Accounting for Certain Transactions Involving Stock Compensation,*" we recorded the intrinsic value, measured as the difference between the grant price and fair market value on the acquisition consummation date, of unvested options, restricted stock, and core employees retention escrow shares assumed in the Spinnaker acquisition as deferred stock compensation. Such deferred stock compensation, which aggregated to $25,892 is recorded in a separate component of stockholders' equity in the accompanying condensed consolidated balance sheet and is being amortized over the vesting term of the related options and restricted stock/shares.

Common Stock Warrants

2.304

VISTEON CORPORATION (DEC)

(Dollars in millions)	2005	2004
Shareholders (deficit)/equity		
Preferred stock (par value $1.00, 50 million shares authorized, none outstanding)	$ —	$ —
Common stock (par value $1.00, 500 million shares authorized, 131 million shares issued, 129 million and 130 million shares outstanding, respectively)	131	131
Stock warrants	127	—
Additional paid-in capital	3,396	3,380
Accumulated deficit	(3,440)	(3,170)
Accumulated other comprehensive (loss) income	(234)	5
Other	(28)	(26)
Total shareholders' (deficit)/equity	$ (48)	$ 320

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Description of Business and Company Background

ACH Transactions (In Part)

On May 24, 2005, the Company and Ford entered into a non-binding Memorandum of Understanding ("MOU"), setting forth a framework for the transfer of 23 North American facilities and related assets and liabilities (the "Business") to a Ford-controlled entity. In September 2005, the Company and Ford entered into several definitive agreements and the Company completed the transfer of the Business to Automotive Components Holdings, LLC ("ACH"), an indirect, wholly-owned subsidiary of the Company, pursuant to the terms of various agreements described below.

On October 1, 2005, Ford acquired from Visteon all of the issued and outstanding shares of common stock of the parent of ACH in exchange for Ford's payment to the Company of approximately $300 million, as well as the forgiveness of certain other postretirement employee benefit ("OPEB") liabilities and other obligations relating to hourly employees associated with the Business, and the assumption of certain other liabilities with respect to the Business (together, the "ACH Transactions"). The ACH Transactions also provided for the termination of the Hourly Employee Assignment Agreement and complete relief to the Company of all liabilities relating to Visteon-assigned Ford UAW hourly employees. Previously deferred amounts relating to the 2003 forgiveness of debt, accounted for pursuant to Statement of Financial Accounting Standards No. 15 ("SFAS 15"), "Accounting by Debtors and Creditors for Troubled Debt Restructurings" were released to income concurrent with the

ACH Transactions and have been included in the "Gain on ACH Transactions."

Additionally, on October 1, 2005, Ford acquired from the Company warrants to acquire 25 million shares of the Company's common stock and agreed to provide funds to be used in the Company's further restructuring.

To effectuate the ACH Transactions, the Company entered into agreements dated as of September 12, 2005, with Ford (Master Agreement, Visteon "A" Transaction Agreement and Visteon "B" Purchase Agreement) and with Automotive Components Holdings, Inc. ("Holdings") (Contribution Agreement). In addition, Visteon entered into the following agreements in connection with the closing of the ACH Transactions.

Warrant and Stockholder Agreement

On October 1, 2005, the Company issued to Ford a warrant (the "Warrant") to purchase 25 million shares of the Company's common stock at an exercise price equal to $6.90 per share. The stockholder agreement provides for certain registration rights with respect to the shares of common stock underlying the Warrant and contains restrictions on the transfer of the Warrant and the underlying shares of common stock.

The following table summarizes the impact of the ACH Transactions as of the October 1, 2005 transaction closing date:

(Dollars in millions)	Assets, Liabilities and Other Consideration as of October 1, 2005	Gain on ACH Transactions For the Year Ended December 31, 2005
Assets transferred to ACH		
Inventories	$ (299)	
Property and equipment	(578)	
Prepaid and other assets	(75)	
		$ (952)
Proceeds from divestiture of ACH		
Cash	299	
Forgiveness of indebtedness:		
OPEB liabilities	2,164	
Employee fringe benefits	260	
Other liabilities	241	
		2,964
Stock warrants issued to Ford	(127)	
Other consideration	(53)	
		(180)
Gain on ACH Transactions		$1,832

Note 12 (In Part): Shareholders' (Deficit)/Equity

In conjunction with the October 1, 2005 ACH Transactions, the Company granted warrants to Ford for the purchase of 25 million shares of the Company's common stock at an exercise price of $6.90. The warrants allow for either cash or share settlement at the sole discretion of the Company, and may be exercised at any time after October 1, 2006 and before the expiration date on October 1, 2013. The warrants are valued at $127 million using a Black-Scholes pricing model, adjusted for the estimated impact on fair value of the restrictions relating to the warrants, and are recorded as permanent equity in the Company's consolidated balance sheets.

Guarantees of ESOP Debt

2.305

THE STANLEY WORKS (DEC)

(Millions of dollars)	2005	2004
Shareowners' equity		
Preferred stock, without par value: authorized and unissued 10,000,000 shares	$ —	$ —
Common stock, par value $2.50 per share: authorized 200,000,000 shares; issued 92,343,410 shares in 2005 and 2004	237.7	237.7
Retained earnings	1,657.2	1,460.6
Accumulated other comprehensive loss	(91.3)	(55.2)
ESOP	(108.2)	(115.8)
	1,695.4	1,527.3
Less: cost of common stock in treasury (8,552,281 shares in 2005 and 9,936,347 shares in 2004)	250.5	290.6
Total shareowners' equity	$1,444.9	$1,236.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Long-term debt and financing arrangements at December 31, 2005 and January 1, 2005 follow:

(Millions of dollars)	Interest Rate	2005	2004
Notes payable in 2007	4.5%	$ 75.0	$ 75.0
Notes payable in 2007	3.5%	150.0	150.0
Notes payable in 2012	4.9%	200.0	200.0
Industrial revenue bonds due in 2010	6.3–6.8%	5.6	5.6
ESOP loan guarantees, payable in varying monthly installments through 2009	6.1%	5.3	8.6
Equity hedge indebtedness, payable in quarterly installments through 2007	Libor plus 1.25%	—	70.6
U.K. loan notes, payable on demand	UK Libor less 0.5%	20.4	22.8
Notes payable in 2045 (subordinated)	5.9%	450.0	—
Other, payable in varying amounts through 2009	3.0–9.1%	11.1	4.6
Total debt		$917.4	$537.2
Less: current maturities		22.1	55.4
Long-term debt		$895.3	$481.8

M (In Part): Employee Benefit Plans

Employee Stock Ownership Plan ("ESOP")

Substantially all U.S. employees may contribute from 1% to 15% of their eligible compensation to a tax-deferred 401(k) savings plan, subject to restrictions under tax laws. Employees generally direct the investment of their own contributions into various investment funds. An employer match benefit is provided under the plan equal to one-half of each employee's tax-deferred contribution up to the first 7% of their compensation. Half of the employer match benefit is invested in the Company's common stock while the investment of the other half is directed by the employee. The employer match benefit totaled $8.3 million, $7.3 million and $5.3 million, in 2005, 2004 and 2003, respectively.

In addition, approximately 4,300 U.S. salaried and non-union hourly employees receive a non-contributory benefit under the Cornerstone plan. Cornerstone benefit allocations range from 3% to 9% of eligible employee compensation based on age. Approximately 1,600 U.S. employees receive an additional average 1.7% contribution actuarially designed to replace previously curtailed pension benefits. Allocations for benefits earned under the Cornerstone plan were $12.3 million in 2005, $12.6 million in 2004, and $13.9 million in 2003. Assets held in participant Cornerstone accounts are invested in a broad-based U.S. equity security index fund and U.S. government bonds.

Shares of the Company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the Company in 1991 ("1991 internal loan"). The external ESOP borrowings are guaranteed by the Company and are included in long-term debt. Shareowners' equity reflects a reduction equal to the cost basis of unearned (unallocated) shares purchased with the internal and the external borrowings.

The Company accounts for the ESOP under Statement of Position ("SOP") 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans," as affected by the Emerging Issues Task Force ("EITF") 89-8, "Expense Recognition for Employee Stock Ownership Plans."Net ESOP activity recognized is comprised of the cost basis of shares released, the cost of the aforementioned Cornerstone and 401(k) match defined contribution benefits, interest expense on the external 1989 borrowing, less the fair value of shares released and dividends on unallocated ESOP shares. Net ESOP expense was $2.1 million in 2005, $2.2 million in 2004 and $9.2 million in 2003. ESOP expense is affected by the market value of the Company's common stock on the monthly dates when shares are released. The market value of shares released averaged $46.41 per share in 2005, $43.20 in 2004, and $29.25 in 2003.

Unallocated shares are released from the trust based on current period debt principal and interest payments as a percentage of total future debt principal and interest payments. Dividends on both allocated and unallocated shares may be used for debt service and to credit participant accounts for dividends earned on allocated shares. Dividends paid on the shares acquired with the 1991 internal loan were used solely to pay internal loan debt service in all periods. Dividends on ESOP shares, which are charged to shareowners' equity as declared, were $12.1 million in 2005, $12.2 million in 2004 and $12.4 million in 2003. Dividends on ESOP shares were utilized entirely for debt service in all years. Interest costs incurred by the ESOP on the 1989 external debt in 2005, 2004 and 2003 were $0.4 million, $0.7 million and $0.9 million, respectively. Interest costs incurred by the ESOP on the 1991 internal loan, which have no earnings impact, were $9.5 million, $9.7 million, and $9.9 million for 2005, 2004, and 2003, respectively. Both allocated and unallocated ESOP shares are treated as outstanding for purposes of computing earnings per share. As of December 31, 2005, the number of ESOP shares allocated to participant accounts was 4,485,721 and the number of unallocated shares was 5,858,275. At December 31, 2005, there were 34,673 released shares in the ESOP trust holding account pending allocation. The Company made cash contributions to the ESOP totaling $13.3 million in 2005, $10.2 million in 2004, and $10.5 million in 2003.

Employee Benefit Trust

2.306

THE BOEING COMPANY (DEC)

(Dollars in millions except per share data)	2005	2004
Shareholders' equity		
Common shares, par value $5.00—1,200,000,000 shares authorized; shares issued—1,012,261,159 and 1,011,870,159	$ 5,061	$ 5,059
Additional paid-in capital	4,371	3,420
Treasury stock, at cost—212,090,978 and 179,686,231	(11,075)	(8,810)
Retained earnings	17,276	15,565
Accumulated other comprehensive loss	(1,778)	(1,925)
ShareValue Trust—39,593,463 and 38,982,205	(2,796)	(2,023)
Total shareholders' equity	$ 11,059	$11,286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Share-Based Compensation

Our primary types of share-based compensation consist of Performance Shares, ShareValue Trust distributions, stock options and other stock unit awards.

In 2005 we adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) using the modified prospective method. Prior to 2005, we used a fair value based method of accounting for share-based compensation provided to our employees in accordance with SFAS No. 123. (See Note 18.)

Note 18 (In Part): Share-Based Compensation and Deferred Stock Compensation

ShareValue Trust

The ShareValue Trust, established effective July 1, 1996, is a 14-year irrevocable trust that holds our common stock, receives dividends and distributes to employees the appreciation in value above a 3% per annum threshold rate of return. The total compensation expense to be recognized over the life of the trust was determined using a binomial option-pricing model and was not affected by adoption of SFAS No. 123R. The Trust was split between two funds, "fund 1" and "fund 2", upon its initial funding. Each fund consists of investment periods which result in overlapping periods as follows:

Period 1 (fund 1): July 1, 1996 to June 30, 1998
Period 2 (fund 2): July 1, 1996 to June 30, 2000
Period 3 (fund 1): July 1, 1998 to June 30, 2002
Period 4 (fund 2): July 1, 2000 to June 30, 2004
Period 5 (fund 1): July 1, 2002 to June 30, 2006
Period 6 (fund 2): July 1, 2004 to June 30, 2008
Period 7 (fund 1): July 1, 2006 to June 30, 2010

An initial investment value is established for each investment period based on the lesser of either (1) fair market value of the fund or (2) the prior ending balance of that fund. This amount is then compounded by the 3% per annum to determine the threshold amount that must be met for that investment period. At the end of the investment period, the value of the investment in excess of the threshold amount will result in a distribution to participants. A distribution is proportionally distributed in the ratio each participant's number of months of participation relates to the total number of months earned by all participants in the investment period. At December 31, 2005, the Trust held 39,593,463 shares of our common stock in the two funds.

On June 30, 2004, the market value of fund 2 exceeded $913 (the threshold representing a 3% per annum rate of return). Based on the average stock price of $50.825 as of June 30, 2004, the market value of fund 2 exceeded the threshold by $143 resulting in a distribution to participants. The distribution was paid in Boeing common stock, except for partial shares, distributions to foreign employees and beneficiaries of deceased participants, which were paid in cash. After employee withholding taxes, approximately 1.7 million shares of common stock were distributed to participants. These transactions were recorded as a deduction from additional paid-in-capital.

If on June 30, 2006, the market value of fund 1 exceeds $1,004, the amount in excess of the threshold will be distributed to employees in shares of common stock. Similarly, if on June 30, 2008, the market value of fund 2 exceeds $1,028, the amount in excess of the threshold will be distributed to employees in shares of common stock.

The ShareValue Trust is accounted for as a contra-equity account and stated at market value. Market value adjustments are offset to additional paid-in capital. At December 31, 2005, there was $325 of total unrecognized compensation cost related to the ShareValue Trust which is expected to be recognized over a period of 4.5 years.

Receivables From Sale of Stock

2.307

MERRIMAC INDUSTRIES, INC. (DEC)

	2005	2004
Stockholders' equity		
Preferred stock, par value $.01 per share: authorized: 1,000,000 shares no shares issued		
Common stock, par value $.01 per share: 20,000,000 shares authorized; 3,228,715 and 3,215,070 shares issued; and 3,146,615 and 3,132,970 shares outstanding, respectively	$ 32,287	$ 32,151
Additional paid-in capital	18,823,353	18,756,710
Retained earnings	8,441,278	7,679,994
Accumulated other comprehensive income	1,367,416	1,158,882
	$28,664,334	$27,627,737
Less treasury stock, at cost—82,100 shares	(573,866)	(573,866)
Less loan to officer-stockholder	(400,000)	(456,000)
Total stockholders' equity	$27,690,468	$26,597,871

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Related Party Transactions

In May 1998, the Company sold 22,000 shares of Common Stock to Mason N. Carter, Chairman, President and Chief Executive Officer of the Company, at a price of $11.60 per share, which approximated the average closing price of the Company's Common Stock during the first quarter of 1998. The Company lent Mr. Carter $255,000 in connection with the purchase of these shares and combined that loan with a prior loan to Mr. Carter in the amount of $105,000. The resulting total principal amount of $360,000 was payable May 4, 2003 and bore interest at a variable interest rate based on the prime rate. This loan was further amended on July 29, 2002. Accrued interest of $40,000 was added to the principal, bringing the principal amount of the loan to $400,000, the due date was extended to May 4, 2006, and interest (at the same rate as was previously applicable) is now payable monthly. Mr. Carter has pledged 33,000 shares of Common Stock as security for this loan, which is a full-recourse loan (see note 15).

On August 31, 2000, in connection with an amendment of Mr. Carter's employment agreement, the Company loaned Mr. Carter an additional $280,000. Interest on the loan varies and is based on the prime rate, payable in accordance with Mr. Carter's employment agreement. Each year the Company is required to forgive 20% of the amount due under this loan and the accrued interest thereon. During 2005, the Company forgave $56,000 of principal and $3,000 of accrued interest and paid a tax gross-up benefit of $4,300. During 2004, the Company forgave $56,000 of principal and $4,500 of accrued interest and paid $6,100 for a tax gross-up benefit. During 2003, the Company forgave $56,000 of principal and $7,000 of accrued interest and paid a tax gross-up benefit of $8,300. This loan was fully satisfied in 2005.

15. Subsequent Event

On March 29, 2006, the Company entered into an agreement with Mason N. Carter, Chairman, President and Chief Executive Officer of the Company, to purchase 42,105 shares of the Company's common stock owned by Mr. Carter at a purchase price of $9.50 per share (the closing price of the common stock on March 29, 2006) resulting in a total purchase price for the shares of $399,998. As a condition to the Company's obligation to purchase the shares, concurrent with the Company's payment, of the purchase price Mr. Carter will pay to the Company $400,000 (plus any accrued and unpaid interest) in full satisfaction of Mr. Carter's promissory note in favor of the Company dated July 29, 2002 (see note 13). The closing of this transaction is scheduled to occur on April 17, 2006.

Stock Purchase Rights

2.308

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	2005	2004
Stockholders' equity		
Common stock, par value $1.00—500,000,000 and 300,000,000 shares authorized, 119,668,552 and 152,049,127 shares issued at December 31, 2005 and 2004, respectively	$ 120	$ 152
Capital in excess of par value	3,702	4,205
Preferred stock purchase rights	1	2
Retained earnings	1,704	1,102
Accumulated other comprehensive loss	(1,079)	(79)
Common stock in treasury, at cost—3,456,918 and 159,856 shares at December 31, 2005 and 2004, respectively	(266)	(8)
Deferred compensation	(67)	(56)
Total stockholders' equity	$ 4,115	$5,318

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Capital Stock

Preferred Share Purchase Rights Plan

The company has had a stockholders' rights plan since 1986. The current rights plan is dated July 26, 2001, and replaced the previous plan prior to its expiration. Rights were distributed as a dividend at the rate of one right for each share of the company's common stock and continue to trade together with each share of common stock. Generally, the rights become exercisable the earlier of 10 days after a public announcement that a person or group has acquired, or a tender offer has been made for, 15% or more of the company's then-outstanding stock. If either of these events occurs, each right would entitle the holder (other than a holder owning more than 15% of the outstanding stock) to buy the number of shares of the company's common stock having a market value two times the exercise price. The exercise price is $215. Generally, the rights may be redeemed at $.01 per right until a person or group has acquired 15% or more of the company's stock. The rights expire in July 2006.

Section 3: Income Statement

INCOME STATEMENT TITLE

3.01 Table 3-1 summarizes the key words used in statement of income titles. Many of the survey companies which used the term "operations" showed a net loss in one or more of the years presented in the statement of income.

3.02

TABLE 3-1: INCOME STATEMENT TITLE

	2005	2004	2003	2002
Income	255	255	242	242
Operations	254	251	261	250
Earnings	86	86	90	98
Other	5	8	7	10
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

3.03 Either a single-step form or a multi-step form is acceptable for preparing a statement of income. Table 3-2 shows that the survey companies presented a multi-step income statement more frequently than a single-step income statement.

3.04 Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that comprehensive income and its components, as defined in the Statement, be reported in a financial statement. Comprehensive income and its components can be reported in an income statement, a separate statement of comprehensive income, or a statement of changes in stockholders' equity.

3.05 Examples of financial statement reporting comprehensive income and its components are presented in section 4.

3.06 Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

3.07

TABLE 3-2: INCOME STATEMENT FORMAT

	2005	2004	2003	2002
Single-Step Form				
Income tax shown as separate last item	105	110	133	156
Income tax listed among operating items	—	—	—	—
Multi-Step Form				
Costs deducted from sales to show gross margin	279	270	256	223
Costs and expenses deducted from sales to show operating income	216	220	211	221
Total Companies	**600**	**600**	**600**	**600**

Reclassification

3.08

3M COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Reclassifications

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year presentation. Costs of internally developed patents have been reclassified to "Research, development and related expenses" from "Selling, general and administrative expenses." Costs of internally developed patents include costs and fees incurred to prepare, file, secure and maintain patents.

3.09

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications (In Part)

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

During the first quarter of 2005, we adopted a streamlined and consistent methodology for allocating shared service costs across all business units and redefined corporate expenses to provide improved management reporting.

Therefore, we have modified certain of our disclosures for 2004 and 2003 to conform to this change. "Shared services" refers to the support activities provided by functions such as Finance, Human Resources, Logistics, Procurement and Information Technology. As a result, we have reclassified amounts between consolidated cost of goods sold, selling and administrative expense, research and development expense, and segment net income for the years ended December 31, 2004 and 2003, as if the reclassifications had been made at the beginning of these respective years. We filed a Form 8-K with the Securities and Exchange Commission on August 15, 2005 related to these reclassifications.

REVENUES AND GAINS

3.10 Paragraphs 78 and 82 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, define revenues and gains.

> 78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
>
> 82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

3.11 Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue. Gains most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are segment disposals, gains shown after the caption for income taxes (Table 3-17), and extraordinary gains (Table 3-18).

3.12 Examples of revenues and gains follow.

3.13

TABLE 3-3: REVENUE CAPTION TITLE

	2005	2004	2003	2002
Net Sales				
Net sales	263	273	285	283
Net sales and operating revenues	10	9	7	11
Net sales combined with other items	1	2	5	3
Sales				
Sales	78	73	76	83
Sales and operating revenues	12	13	14	10
Sales combined with other items	4	6	6	3
Sales and services	1	4	2	7
Other Captions				
Revenue	230	219	204	198
Shipments, rentals, fees, etc.	1	1	1	2
Total Companies	**600**	**600**	**600**	**600**

3.14

TABLE 3-4: GAINS

	Number of Companies			
	2005	2004	2003	2002
Interest	380	354	361	350
Sale of assets	224	198	199	187
Equity in earnings of investees	148	135	120	106
Foreign currency transactions	78	73	77	45
Change in fair value of derivatives	77	64	49	25
Liability accrual reduced	73	73	68	63
Dividends	64	63	53	66
Royalty, franchise and license fees	38	39	33	23
Litigation settlements	28	38	33	20
Insurance recoveries	24	19	17	16
Rentals	17	15	22	17
Debt extinguishment	6	9	13	3

REVENUES

3.15

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands)	2005	2004	2003
Net sales	$2,654,875	$1,947,364	$1,657,633
Cost of goods sold	2,149,984	1,507,492	1,329,554
Gross profit	504,891	439,872	328,079
Engineering, selling, general and administrative expenses	314,123	205,663	178,157
Income from operations	$ 190,768	$ 234,209	$ 149,922

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Net sales include sales of engines, power products, and related service parts and accessories, net of allowances for cash discounts, customer volume rebates and discounts, and advertising allowances. In accordance with Staff Accounting Bulletin No. 104 as amended, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. This is generally upon shipment, except for certain international shipments, where revenue is recognized when the customer receives the product.

Included in net sales are costs associated with programs under which Briggs & Stratton shares the expense of financing certain dealer and distributor inventories, referred to as floor plan expense. This represents interest for a pre-established length of time based on a variable rate from a contract with a third party financing source for dealer and distributor inventory purchases. Sharing the cost of these financing arrangements is used by Briggs & Stratton as a marketing incentive for customers to buy inventory. The financing costs included in net sales in fiscal 2005 were $10.6 million. There were no similar costs in fiscal 2004 and fiscal 2003.

The Company also offers a variety of customer rebates and sales incentives. The Company records estimates for rebates and incentives at the time of sale, as a reduction in net sales.

3.16

HARSCO CORPORATION (DEC)

(In thousands)	2005	2004	2003
Revenues from continuing operations			
Service sales	$1,928,539	$1,764,159	$1,493,942
Product sales	837,671	737,900	624,574
Total revenues	2,766,210	2,502,059	2,118,516
Costs and expenses from continuing operations			
Cost of services sold	1,425,222	1,313,075	1,104,873
Cost of products sold	674,177	603,309	499,500
Selling, general and administrative expenses	393,187	368,385	329,983
Research and development expenses	2,676	2,579	3,313
Other expenses	2,000	4,862	6,955
Total costs and expenses	2,497,262	2,292,210	1,944,624
Operating income from continuing operations	$ 268,948	$ 209,849	$ 173,892

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Product sales and service sales are recognized when they are realized or realizable and when earned. Revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the buyer is fixed or determinable and collectibility is reasonably assured. Service sales include sales of the Mill Services and Access Services Segments as well as railway track maintenance services. Product sales include sales of the Gas Technologies Segment as well as the manufacturing businesses of the Engineered Products and Services ("all other") Category. Rentals were less than 10% of total revenues in 2005, 2004 and 2003 and are included in service sales.

Mill Services Segment

This Segment provides services predominantly on a long-term, volume-of-production contract basis. Contracts may include both fixed monthly fees as well as variable fees based upon specific services provided to the customer. The fixed-fee portion is recognized periodically as earned (normally monthly) over the contractual period. The variable-fee portion is recognized as services are performed and differs from period-to-period based upon the actual provision of services.

Access Services Segment

This Segment rents equipment under month-to-month rental contracts, provides services under both fixed-fee and time-and-materials short-term contracts and, to a lesser extent, sells products to customers. Equipment rentals are recognized as earned over the contractual rental period. Services provided on a fixed-fee basis are recognized over the contractual period based upon the completion of specific units of accounting (i.e., erection and dismantling of equipment). Services provided on a time-and-materials basis are recognized when earned as services are performed. Product sales revenue is recognized when title and risk of loss transfer, and when all of the revenue recognition criteria have been met.

Gas Technologies Segment

This Segment sells products under customer-specific sales contracts. Product sales revenue is recognized when title and risk of loss transfer, and when all of the revenue recognition criteria detailed in SAB 104 have been met. Title and risk of loss for domestic shipments generally transfers to the customer at the point of shipment. For international sales, title and risk of loss transfer in accordance with the international commercial terms included in the specific customer contract.

Engineered Products and Services ("All Other") Category

This category includes the Harsco Track Technologies, Reed Minerals, IKG Industries, Patterson-Kelley and Air-X-Changers operating segments. These operating segments principally sell products. The Harsco Track Technologies Division sells products and provides services. Product sales revenue for each of these operating segments is recognized generally when title and risk of loss transfer, and when all of the revenue recognition criteria have been met. Title and risk of loss for domestic shipments generally transfers to the customer at the point of shipment. For export sales, title and risk of loss transfer in accordance with the international commercial terms included in the specific customer contract. Revenue may be recognized subsequent to the transfer of title and risk of loss for certain product sales of the Harsco Track Technologies Division if the specific sales contract includes a customer acceptance clause which provides for different timing. In those situations revenue is recognized after transfer of title and risk of loss and after customer acceptance. The Harsco Track Technologies Division provides services predominantly on a long-term, time-and-materials contract basis. Revenue is recognized when earned as services are performed.

3.17

INTERGRAPH CORPORATION (DEC)

(In thousands)	2005	2004	2003
Revenues			
Systems	$297,860	$287,228	$296,886
Maintenance	151,354	138,777	131,099
Services	127,611	125,093	98,018
Total revenues	576,825	551,098	526,003
Cost of revenues			
Systems	149,748	141,727	150,837
Maintenance	41,433	43,170	49,173
Services	93,837	90,437	74,047
Total cost of revenues	285,018	275,334	274,057
Gross profit	$291,807	$275,764	$251,946

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," issued in March 2004, and the American Institute of Certified Public Accountants Statement of Position ("SOP") No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and SOP No. 97-2, "Software Revenue Recognition." SAB No. 104 and SOP No. 97-2 outline basic criteria that must be met prior to the recognition of revenue, including persuasive evidence of a sales arrangement, delivery of products and performance of services, a fixed and determinable sales price, and reasonable assurance of collection. For revenue recognition purposes, the Company considers persuasive evidence of a sales arrangement to be receipt of a signed contract or purchase order.

For systems sales with no significant post-shipment obligations, the Company recognizes revenues based upon estimated delivery times, generally less than five days after shipment, for the equipment and/or software shipped. Revenues on systems sales with significant post-shipment obligations, including the production, modification, or customization of software, are recognized by the percentage-of-completion method, with progress to completion measured on the basis of completion of milestones, labor costs incurred currently versus the total estimated labor cost of performing the contract over its term, or other factors appropriate to the individual contract of sale including customer final acceptance. The total amounts of revenues to be earned under contracts accounted for by the percentage-of-completion method are generally fixed by contractual terms. The Company regularly reviews its progress on these contracts and revises the estimated costs of fulfilling its obligations. Due to uncertainties inherent in the estimation process, it is possible that completion costs will be further revised on some of these contracts, which could delay revenue recognition and decrease the gross margin to be earned. Any losses identified in the review process are recognized in full in the period in which determined.

For arrangements with multiple elements, the Company allocates revenue to each element of a transaction based upon its fair value as determined by vendor-specific objective evidence ("VSOE"). VSOE of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately. The Company defers revenue for any undelivered elements, and recognizes revenue when the product is delivered or over the period in which the service is performed, in accordance with the Company's revenue recognition policy for such element. If the Company cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, including implied maintenance or specified upgrades, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, the Company uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Revenues from cost-based contracts with the U.S. Government, which include time and materials, cost-plus, and cost-plus award fee contracts, are recognized monthly as costs are incurred and fees are earned under the contracts.

Maintenance and services are provided on both an as-needed and long-term basis. Maintenance and services provided outside of a maintenance contract are on an as-requested basis, and revenue is recognized as the services are provided. Revenue for maintenance and services provided on a long-term basis is recognized ratably over the terms of the contract.

Billings may not coincide with the recognition of revenue. Unbilled accounts receivable occur when revenue recognition precedes billing to the customer, and arise primarily from commercial sales with predetermined billing schedules, U.S. Government sales with billing at the end of a performance period, and U.S. Government cost-plus award fee contracts. Deferred revenue occurs when billing to the customer precedes revenue recognition, and arises primarily from maintenance revenue billed in advance of performance of the maintenance activity and systems revenue recognized on the percentage-of-completion method. Amounts billed to customers for shipping and handling costs are classified as revenues in the consolidated statements of income with the associated costs included as a component of cost of revenues.

GAINS

Interest

3.18

AVON PRODUCTS, INC. (DEC)

(In millions)	2005	2004	2003
Net sales	$8,065.2	$7,656.2	$6,773.7
Other revenue	84.4	91.6	71.4
Total revenue	8,149.6	7,747.8	6,845.1
Costs, expenses and other			
Cost of sales	3,133.7	2,932.5	2,631.6
Marketing, distribution and administrative expenses	3,866.9	3,586.3	3,170.7
Operating profit	1,149.0	1,229.0	1,042.8
Interest expense	54.1	33.8	33.3
Interest income	37.3	20.6	12.6
Other expense, net	8.0	28.3	28.6
Total other expenses	24.8	41.5	49.3
Income before taxes and minority interest	$1,124.2	$1,187.5	$ 993.5

Sale of Assets

3.19

FISERV, INC. (DEC)

(In thousands)	2005	2004	2003
Revenues			
Processing and services	$2,891,552	$2,739,732	$2,420,728
Product	1,167,926	990,014	504,639
Total revenues	4,059,478	3,729,746	2,925,367
Expenses			
Cost of processing and services	1,855,247	1,822,733	1,659,923
Cost of product	942,708	795,965	351,395
Selling, general and administrative	516,127	451,488	392,227
Total expenses	3,314,082	3,070,186	2,403,545
Operating income	745,396	659,560	521,822
Interest expense	(27,828)	(24,902)	(22,895)
Interest income	13,561	6,708	7,340
Realized gain from sale of investments	86,822	—	—
Income from continuing operations before income taxes	$ 817,951	$ 641,366	$ 506,267

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments (In Part)

The following summarizes the Company's investments at December 31:

(In thousands)	Amortized Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
2005					
Mortgage-backed obligations	$1,845,019	$ 2,713	$(50,614)	$1,797,118	$1,845,019
Corporate debt obligations	16,255	1,365	—	17,620	16,255
Other fixed income obligations	492	1	—	493	492
Total held-to-maturity investments	1,861,766	4,079	(50,614)	1,815,231	1,861,766
Available-for-sale investments	14,590	54	—	14,644	14,644
Money market mutual funds	148,607	—	—	148,607	148,607
Repurchase agreements	100,000	—	—	100,000	100,000
Other investments	1,521	—	—	1,521	1,521
Total	$2,126,484	$ 4,133	$(50,614)	$2,080,003	$2,126,538
2004					
Mortgage-backed obligations	$1,496,969	$ 8,249	$(33,647)	$1,471,571	$1,496,969
Corporate debt obligations	27,658	3,218	—	30,876	27,658
Other fixed income obligations	990	4	—	994	990
Total held-to-maturity investments	1,525,617	11,471	(33,647)	1,503,441	1,525,617
Available-for-sale investments	30,436	50,124	—	80,560	80,560
Money market mutual funds	131,872	—	—	131,872	131,872
Repurchase agreements	225,000	—	—	225,000	225,000
Other investments	21,487	—	—	21,487	21,487
Total	$1,934,412	$61,595	$(33,647)	$1,962,360	$1,984,536

Available-for-sale investments are carried at market value, based upon quoted market prices. Unrealized gains or losses on available-for-sale investments are accumulated in shareholders' equity as accumulated other comprehensive income, net of related deferred income taxes. During 2005, the Company sold its remaining 3.2 million shares of Bisys Group, Inc. common stock (included in available-for-sale investments) realizing a pre-tax gain of $43.5 million and its investment in INTRIA Items, Inc. (included in other investments) realizing a pre-tax gain of $43.4 million. Realized gains or losses are computed based on specific identification of the investments sold, based on the trade date.

Equity in Earnings of Investee

3.20

ARROW ELECTRONICS, INC. (DEC)

(In thousands)	2005	2004	2003
Sales	$11,164,196	$10,646,113	$8,528,331
Costs and expenses			
Cost of products sold	9,424,586	8,922,962	7,107,378
Selling, general and administrative expenses	1,200,826	1,219,888	1,117,627
Depreciation and amortization	47,482	54,538	61,410
Acquisition indemnification charge (credit)	(1,672)	(9,676)	13,002
Restructuring charges	12,716	11,391	37,965
Integration charge (credit)	—	(2,323)	6,904
Impairment charge	—	9,995	—
	10,683,938	10,206,775	8,344,286
Operating income	480,258	439,338	184,045
Equity in earnings of affiliated companies	4,492	4,106	4,797
Loss on prepayment of debt	4,342	33,942	6,571
Write-down of investments	3,019	1,318	—
Interest expense, net	91,828	103,201	134,987
Income before income taxes and minority interest	$ 385,561	$ 304,983	$ 47,284

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Investments (In Part)

Investments are accounted for using the equity method of accounting if the investment provides the company the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method of accounting is appropriate. The company records its investments in equity method investees meeting these characteristics as "Investments in affiliated companies" in the accompanying consolidated balance sheet.

3 (In Part): Investments

Affiliated Companies

During 2005, in connection with the acquisition of Ultra Source, the company has acquired several investments with ownership interests ranging between 33% and 45%. The company also has a 50% interest in several joint ventures with Marubun Corporation (collectively "Marubun/Arrow"), and a 50% interest in Altech Industries (Pty.) Ltd. ("Altech Industries"), a joint venture with Allied Technologies Limited. These investments are accounted for using the equity method.

The following tables present the company's investment in Marubun/Arrow, the company's investment and long-term note receivable in Altech Industries, and the company's other investments acquired as a result of the acquisition of Ultra Source at December 31, 2005 and 2004, and the equity in earnings (loss) of affiliated companies for the years ended December 31, 2005 and 2004:

	Investments in Affiliated Companies		Equity in Earnings (Loss) of Affiliated Companies	
	2005	2004	2005	2004
Marubun/Arrow	$23,352	$18,841	$4,027	$4,290
Altech Industries	14,675	15,461	500	(184)
Other	932	—	(35)	—
	$38,959	$34,302	$4,492	$4,106

Under the terms of various joint venture agreements, the company would be required to pay its pro-rata share, based upon its ownership interests, of the third party debt of the joint ventures in the event that the joint ventures were unable to meet their obligations. At December 31, 2005 and 2004, the company's pro-rata share of this debt was $2,500 and $7,750, respectively. The company believes there is sufficient equity in the joint ventures to cover this potential liability.

Foreign Currency Transactions

3.21

AMPHENOL CORPORATION (DEC)

(Dollars in thousands)	2005	2004	2003
Net sales	$1,808,147	$1,530,446	$1,239,504
Costs and expenses			
Cost of sales, excluding depreciation and amortization	1,162,004	999,965	820,724
Depreciation and amortization expense	50,666	38,829	37,007
Selling, general and administrative expense	252,150	215,008	177,353
Operating income	343,327	276,644	204,420
Interest expense	(24,090)	(22,540)	(29,505)
Other expenses, net	(8,871)	(6,663)	(6,987)
Expense for early extinguishment of debt	(2,398)	—	(10,367)
Income before income taxes	$ 307,968	$ 247,441	$ 157,561

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Foreign Currency Translation

The financial position and results of operations of the Company's significant foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of such subsidiaries have been translated at current exchange rates and related revenues and expenses have been translated at weighted average exchange rates. The aggregate effect of translation adjustments so calculated is included as a component of accumulated other comprehensive loss within shareholders' equity. Transaction gains and losses related to operating assets and liabilities are included in selling, general and administrative expense and those related to non-operating assets and liabilities are included in other expense, net.

Note 10 Other Expenses, Net

Other income (expense) is comprised as follows:

	2005	2004	2003
Foreign currency transaction income (losses)	$ 354	$ (643)	$(1,330)
Program fees on sale of accounts receivable	(3,751)	(2,254)	(1,468)
Minority interests	(4,084)	(3,029)	(2,363)
Agency and commitment fees	(1,505)	(980)	(837)
Fees and expenses associated with secondary stock offering	—	(185)	(950)
Other	115	428	(39)
	$(8,871)	$(6,663)	$(6,987)

Change in Fair Value of Derivatives

3.22

CABLEVISION SYSTEMS CORPORATION (DEC)

(Dollars in thousands)	2005	2004	2003
Revenues, net	$5,175,911	$4,750,037	$4,023,209
Operating expenses			
Technical and operating (excluding depreciation, amortization and impairments shown below)	2,297,037	2,262,694	1,864,579
Selling, general and administrative	1,292,565	1,192,457	1,083,394
Other operating income	—	(95,758)	(4,758)
Restructuring charges (credits)	(433)	151	10,725
Depreciation and amortization (including impairments)	1,084,304	1,137,940	1,042,850
	4,673,473	4,497,484	3,996,790
Operating income	502,438	252,553	26,419
Other income (expense)			
Interest expense	(764,513)	(721,008)	(615,668)
Interest income	17,002	8,568	10,899
Equity in net income (loss) of affiliates	3,286	(12,991)	429,732
Gain (loss) on sale of programming and affiliate interests, net	64,968	2,232	(13,644)
Gain (loss) on investments, net	(138,312)	134,598	235,857
Write-off of deferred financing costs	—	(18,961)	(388)
Gain (loss) on derivative contracts, net	119,180	(165,305)	(208,323)
Loss on extinguishment of debt	—	(78,571)	—
Minority interests	(5,034)	(65,568)	(116,950)
Miscellaneous, net	651	46	3,719
	(702,772)	(916,960)	(274,766)
Loss from continuing operations before income taxes	$ (200,334)	$ (664,407)	$ (248,347)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133 ("Statement No. 133"), Accounting for Derivative Instruments and Hedging Activities, as amended. Statement No. 133 requires that an entity recognize all derivatives, as defined, as either assets or liabilities measured at fair value. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized as a component of comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

The Company uses derivative instruments to manage its exposure to market risks from changes in certain equity prices and interest rates and does not hold or issue derivative instruments for speculative or trading purposes. These derivative instruments are not designated as hedges, and changes in the fair values of these derivatives are recognized in earnings as gains (losses) on derivative contracts.

Note 10. Collateralized Indebtedness and Derivatives

To manage interest rate risk, the Company has from time to time entered into interest rate swap contracts to adjust the proportion of total debt that is subject to variable and fixed interest rates. Such contracts fix the borrowing rates on floating rate debt to provide an economic hedge against the risk of rising rates and/or convert fixed rate borrowings to variable rates to provide an economic hedge against the risk of higher borrowing costs in a declining interest rate environment. At December 31, 2005 and 2004, the Company was a party to interest rate swap agreements to pay floating rates of interest with a total notional value of $450,000 and a fair value of approximately $10,541, and $4,051, a net liability position, respectively. These agreements have not been designated as hedges for accounting purposes.

In addition, the Company has entered into prepaid interest rate swap agreements in connection with its monetization of certain of its stock holdings, discussed below. These contracts require the Company to pay a floating rate of interest in exchange for fixed rate interest payments, the net present value of which was paid to the Company at the contract's inception. As of December 31, 2005 and 2004, the total notional value of such contracts was $613,960 and $1,115,045, respectively and the fair values of such contracts were $26,881 and $47,314, respectively, in a net liability position. These agreements have not been designated as hedges for accounting purposes.

The changes in the fair value of the Company's swap agreements and the net realized gains (losses) as a result of net cash interest income (expense) for the years ended December 31, 2005, 2004 and 2003 aggregating approximately $(16,497), $(656) and $10,420, respectively, are reflected in gain (loss) on derivative contracts in the accompanying consolidated statements of operations.

The Company has also entered into various transactions to provide an economic hedge against equity price risk on certain of its stock holdings. The Company had monetized all of its stock holdings in Charter Communications, Inc., Adelphia Communications Corporation, AT&T, AT&T Wireless, Comcast Corporation, General Electric Company and Leapfrog Enterprises, Inc. through the execution of prepaid forward contracts, collateralized by an equivalent amount of the respective underlying stock. The contracts set a floor and cap on the Company's participation in the changes in the underlying stock prices and at maturity are expected to offset declines in the fair values of the underlying stock below the hedge price per share, while allowing the Company to retain upside appreciation from the hedge price per share to the cap price. At maturity, the contracts provide for the option to deliver cash or shares of AT&T, Comcast, Charter Communications, Adelphia Communications, General Electric or Leapfrog stock (as the case may be) with a value determined by reference to the applicable stock price at maturity.

The Company received cash proceeds upon execution of the prepaid forward contracts discussed above which has been reflected as collateralized indebtedness in the accompanying consolidated balance sheets. In addition, the Company separately accounts for the equity derivative component of the prepaid forward contracts. These equity derivatives have not been designated as hedges for accounting purposes. Therefore, the fair values of the equity derivatives of $296,017 and $371,856, at December 31, 2005 and 2004, respectively, have been reflected in the accompanying consolidated balance sheets and the net increases (decreases) in the fair value of the equity derivative component of the prepaid forward contracts of $135,677, $(132,940) and $(180,125), as of December 31, 2005, 2004 and 2003, respectively, are included in gain (loss) on derivative contracts in the accompanying consolidated statements of operations. For the years ended December 31, 2005, 2004 and 2003, the Company recorded a gain (loss) on investments of $(135,082), $135,649 and $231,836 respectively, representing the net increases or decreases in the fair values of all investment securities pledged as collateral for the period.

The following table summarizes the settlement of the Company's collateralized indebtedness for the year ended December 31, 2005. The Company's collateralized indebtedness obligations relating to AT&T Wireless, Charter, Adelphia and AT&T shares were settled by delivering the underlying securities and proceeds from the related equity derivative contracts. The Company's collateralized indebtedness obligations relating to Comcast shares were settled by delivering the cash equal to the market value of the Comcast shares and proceeds from the related equity derivative contracts. The cash was obtained from the proceeds of new monetization contracts covering an equivalent number of Comcast shares, and, in certain cases, proceeds from a prepaid interest rate swap executed in conjunction with the equity derivative contract. The terms of the new contracts are similar in all material respects to the contracts that had matured and allow the Company to retain upside participation in the Comcast shares up to the contract's upside appreciation limit with downside exposure limited below the hedge price.

	Adelphia	AT&T Wireless	Charter	AT&T	Comcast	Total
Number of shares	1,010,000	7,243,166	1,862,229	4,183,455	7,159,206	
Collateralized indebtedness	$ (39,935)	$ (116,544)	$ (42,676)	$ (165,036)	$ (266,227)	$(630,418)
Prepaid forward contracts	39,834	8,897	39,678	79,502	43,604	211,515
Underlying securities	101	—	2,998	85,534	—	88,633
Restricted cash	—	108,647	—	—	—	108,647
Net cash receipt (payment)	$ —	$ 1,000	$ —	$ —	$ (222,623)	$(221,623)
Proceeds from new monetization contracts	$ —	$ —	$ —	$ —	$ 209,973	$ 209,973
Proceeds from prepaid interest rate swap contract	—	—	—	—	6,462	6,462
	$ —	$ —	$ —	$ —	$ 216,435	$ 216,435

At December 31, 2005, the Company had collateralized indebtedness obligations of $857,774 that mature during the next twelve months. The Company intends to settle such obligations by either delivering shares of the applicable stock and proceeds of the equity derivative contracts or delivering cash from the proceeds of a new monetization transaction. In the event of an early termination of any of these contracts, the Company would be obligated to repay the fair value of the collateralized indebtedness less the sum of the fair values of the underlying stock and equity collar, calculated at the termination date. As of December 31, 2005, this settlement amount totaled approximately $16,300, which excludes the General Electric monetization which would be favorable.

In October 2004, the Company received $213,647 in cash in exchange for all 14.2 million shares it owned of AT&T Wireless common stock, representing the $15 share price paid in consideration of the merger between AT&T Wireless and Cingular Wireless LLC. The shares and resultant cash exchanged for such shares had previously been pledged in support of the repayment of the collateralized debt. As a result of that exchange, the Company's prepaid forward contracts relating to its shares of AT&T Wireless were terminated. The termination provisions under the prepaid forward contracts required the Company to repay the fair value of the collateralized indebtedness less the sum of the fair value of the underlying stock and equity collars. The Company recognized a loss on the extinguishment of debt of approximately $6,076 representing the difference between the fair value and the carrying value of the collateralized indebtedness. At December 31, 2004, the Company had settled certain collateralized indebtedness with a fair value of $124,100 by releasing to the counterparty cash proceeds from the related prepaid forward contract totaling $20,100 and the cash from the merger transaction of $105,000 both of which had been pledged in settlement of the debt. The Company received the net difference of $1,000 in cash upon settlement in February 2005.

In connection with the issuance of the Series A Preferred Stock to Quadrangle, the Company entered into an agreement with Quadrangle which granted Quadrangle the right to require the Company to purchase the preferred stock ("put option") for cash or through the issuance of registered equity securities of the Company, at the Company's option. The exchange right and the put option were accounted for as a derivative. The change in the fair value of the exchange right and put option of $31,709 and $38,618 for the years ended December 31, 2004 and 2003, respectively has been reflected as a loss on derivative contracts in the accompanying consolidated statements of operations. In October 2003, Quadrangle exercised its put option to require CSC Holdings to purchase all of its Series A Exchangeable Participating Preferred Stock. The parties entered into an agreement that the put price was $150,328. The put price was paid in cash by CSC Holdings in August 2004.

Liability Accruals Reduced

3.23

BAXTER INTERNATIONAL INC. (DEC)

(In millions)	2005	2004	2003
Net sales	$9,849	$9,509	$8,904
Costs and expenses			
Cost of goods sold	5,756	5,594	4,951
Marketing and administrative expenses	2,030	1,960	1,805
Research and development expenses	533	517	553
Restructuring charges, net	(109)	543	337
Other special charges	—	289	—
Net interest expense	118	99	87
Other expense, net	77	77	42
Total costs and expenses	8,405	9,079	7,775
Income from continuing operations before income taxes and cumulative effect of accounting changes	$1,444	$ 430	$1,129

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Restructuring and Other Special Charges

Restructuring Charges

The company recorded restructuring charges totaling $543 million in 2004 and $337 million in 2003. The net-of-tax impact of the charges was $394 million ($0.64 per diluted share) in 2004 and $202 million ($0.33 per diluted share) in 2003. In 2005, the company recorded income adjustments to these charges totaling $109 million ($83 million on a net-of-tax basis, or $0.13 per diluted share). The following is a summary of the charges and adjustments.

2004 Restructuring Charge

The company recorded a $543 million restructuring charge in 2004, principally associated with management's decision to implement actions to reduce the company's overall cost structure and to drive sustainable improvements in financial performance. The charge was primarily for severance and costs associated with the closing of facilities (including the closure of additional plasma collection centers) and the exiting of contracts.

These actions included the elimination of over 4,000 positions, or 8% of the global workforce, as management reorganized and streamlined the company. Approximately 50% of the eliminated positions were in the United States. Approximately three-quarters of the estimated savings impacted general and administrative expenses, with the remainder primarily impacting cost of goods sold. The eliminations impacted all three of the company's segments, along with the corporate headquarters and administrative functions.

Included in the charge was $196 million relating to asset impairments, almost all of which was to write down PP&E. A portion of the impairment charge related to assets being offered for sale, and the fair value of the assets was estimated based on the sales prices being negotiated at the time of the charge. The remainder of the impairment charge principally related to assets that were under construction and other assets that were abandoned by the company. Generally, there was no market for these assets and, accordingly, management's determination of fair value assumed no residual value for these assets. Also included in the charge was $347 million for cash costs, principally pertaining to severance and other employee-related costs. As discussed below, management adjusted the restructuring charge during 2005 based on changes in estimates and completion of planned actions. Approximately 90% of the targeted positions have been eliminated as of December 31, 2005.

2003 Restructuring Charge

The company recorded a $337 million restructuring charge in 2003, principally associated with management's decision to close certain facilities and reduce headcount on a global basis. Management undertook these actions in order to position the company more competitively and to enhance profitability. The company closed plasma collection centers and a plasma fractionation facility. In addition, the company consolidated and integrated several facilities. Management discontinued Baxter's recombinant hemoglobin protein program because it did not meet expected clinical milestones. Also included in the charge were costs related to other reductions in the company's workforce.

Included in the charge was $128 million relating to asset impairments, principally to write down PP&E, goodwill and other intangible assets. The impairment loss relating to the PP&E was principally based on market data for the assets, with the fair value of assets offered for sale estimated using sales prices being negotiated at the time of the charge, and the fair value of assets being abandoned based on estimates of salvage values available in the marketplace. The impairment loss relating to goodwill and other intangible assets was based on management's assessment of the value of the related businesses. Also included in the charge was $209 million for cash costs, principally pertaining to severance and other employee-related costs associated with the elimination of approximately 3,200 positions worldwide. Substantially all of the targeted positions have been eliminated as of December 31, 2005, and the program is substantially complete. As discussed below, management adjusted the restructuring charge during 2005 based on changes in estimates and completion of planned actions.

2005 Adjustments to Restructuring Charges

During 2005, the company recorded a $109 million benefit relating to the adjustment of restructuring charges recorded in 2004 and 2003 ($89 million of which related to the reserve for cash costs, as detailed in the table below), as the implementation of the program progressed, actions were completed, and management refined its estimates of remaining spending. The restructuring reserve adjustments principally related to severance and other employee-related costs. The company's targeted headcount reductions are being achieved with a higher level of attrition than originally anticipated. Accordingly, the company's severance payments are projected to be lower than originally estimated. The remaining adjustments principally related to changes in estimates regarding certain contract termination costs, certain adjustments related to asset disposal proceeds that were in excess of original estimates, and the finalization of certain employment termination arrangements. Additional adjustments may be recorded in the future as the restructuring programs are completed.

Restructuring Reserves

The following summarizes activity in the company's restructuring reserves through December 31, 2005.

(In millions)	Employee-Related Costs	Contractual and Other Costs	Total
2004 Restructuring charge			
Charge	$212	$135	$ 347
Utilization	(60)	(32)	(92)
December 31, 2004	152	103	255
Utilization	(67)	(34)	(101)
Adjustments	(40)	(21)	(61)
December 31, 2005	$ 45	$ 48	$ 93
2003 Restructuring charge			
Charge	$160	$ 49	$ 209
Utilization	(63)	(6)	(69)
December 31, 2003	97	43	140
Utilization	(74)	(17)	(91)
December 31, 2004	23	26	49
Utilization	(12)	(4)	(16)
Adjustments	(8)	(20)	(28)
December 31, 2005	$ 3	$ 2	$ 5

Dividends

3.24

AMERON INTERNATIONAL CORPORATION (NOV)

(Dollars in thousands)	2005	2004	2003
Sales	$ 704,574	$ 605,853	$ 600,495
Cost of sales	(522,467)	(457,442)	(434,007)
Gross profit	182,107	148,411	166,488
Selling, general and administrative expenses	(145,954)	(137,468)	(127,392)
Pension plan curtailment/settlement	—	(12,817)	—
Other income, net	7,141	17,861	10,852
Income before interest, income taxes and equity in earnings of joint venture	43,294	15,987	49,948
Interest expense, net	(5,219)	(5,313)	(6,645)
Income before income taxes and equity in earnings of joint venture	$ 38,075	$ 10,674	$ 43,303

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Other Income, Net

Other income was as follows for the year ended November 30:

(In thousands)	2005	2004	2003
Royalties, fees and other income	$3,548	$ 3,122	$ 2,866
Dividends from joint ventures—cost method	1,840	506	6,311
Gain/(Loss) on sale of property, plant and equipment	1,634	13,140	(92)
Foreign currency gain/(loss)	467	30	(269)
Gain on sale of investment	—	—	2,477
Other	(348)	1,063	(441)
	$7,141	$17,861	$10,852

Note 5 (In Part): Joint Ventures

Investments, advances and equity in undistributed earnings of joint ventures were as follows at November 30:

(In thousands)	2005	2004
Investment—equity method	$13,777	$16,042
Investments—cost method	5,922	5,922
	$19,699	$21,964

The Company's ownership of joint ventures is summarized below:

Products	Joint Ventures	Ownership Interest
Coatings	Oasis-Ameron, Ltd.	40%
Fiberglass pipe	Bondstrand, Ltd.	40%
Concrete pipe	Ameron Saudi Arabia, Ltd.	30%
Steel products	TAMCO	50%

Investments in joint ventures and the amount of undistributed earnings were as follows:

(In thousands)	Coatings	Fiberglass Pipe	Concrete Pipe	Steel Products	Total
Cost	$2,138	$3,784	$—	$ 8,482	$14,404
Comprehensive loss from joint venture	—	—	—	(1,544)	(1,544)
Accumulated equity in undistributed earnings	—	—	—	6,839	6,839
Investment, November 30, 2005	$2,138	$3,784	$—	$13,777	$19,699
2005 Dividends	$ 540	$1,300	$—	$11,952	$13,792
Cost	$2,138	$3,784	$—	$ 8,482	$14,404
Comprehensive loss from joint venture	—	—	—	(1,178)	(1,178)
Accumulated equity in undistributed earnings	—	—	—	8,738	8,738
Investment, November 30, 2004	$2,138	$3,784	$—	$16,042	$21,964
2004 Dividends	$ 506	$ —	$—	$ 9,680	$10,186

Royalty, Franchise and License Fees

3.25

IOMEGA CORPORATION (DEC)

(In thousands)	2005	2004	2003
Sales	$264,505	$328,663	$391,344
Net impairment charges	—	4,402	—
Cost of sales	208,670	251,549	281,068
Gross margin	55,835	72,712	110,276
Operating expenses (income)			
Selling, general and administrative	60,847	90,118	106,185
Research and development	14,054	24,444	31,555
License and patent fee income	(1,301)	(10,599)	—
Restructuring charges	7,579	4,531	11,437
Bad debt credit	(312)	(314)	(1,769)
Total operating expenses	80,867	108,180	147,408
Operating loss	$ (25,032)	$ (35,468)	$ (37,132)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) (In Part): Significant Accounting Policies

License and Patent Fee Income

During 2005, license and patent fee income totaling $1.3 million was recognized from two intellectual property license agreements, one entered into in the second quarter of 2004 and the other entered into in the second quarter of 2005.

During 2004, we entered into a license agreement with respect to intellectual property related to our Digital Capture Technology ("DCT") development program. See Note 3 for more detail regarding the license agreement. We recorded the license fees as a reduction of operating expenses as opposed to revenue, in accordance with Statement of Financial Accounting Concepts 6, "Elements of Financial Statements" ("SFAC 6"). Licensing is not a part of our major or central operations and thus this transaction was considered a gain under SFAC 6. The license fees recaptured costs that resulted directly from our research and development activities, the license fees were considered to be a part of operations and thus were shown as a separate line item under operating expenses in our consolidated statement of operations.

During 2004, we entered into a separate license agreement regarding certain disk controller technology. The license terms included the payment of $1.0 million to us. This license agreement calls for royalties to be paid on future products.

3) DCT Program License Agreement, Impairment Charges and Related Asset Sales

DCT technology was a small form factor flexible media technology previously developed by Iomega. In 2004, we undertook an analysis and objective evaluation of the market environment in which the DCT technology would compete and decided not to proceed with the DCT development: rather, we would seek to license the technology. As part of the wind down activities during third quarter 2004, we determined that fixed assets related solely to the DCT technology were impaired and thus during 2004 recorded as cost of sales, $4.5 million of impairment charges. This $4.5 million charge was attributable entirely to the Other Products business segment. The fair value of the assets was determined based on industry knowledge and from the disposition of similar assets in the past. During 2004, we also recorded $0.5 million of other charges for cancelled commitments, comprised primarily of supplier claims, for equipment and parts that had been committed to by our suppliers as well as second tier suppliers.

During the fourth quarter of 2004, we entered into a definitive license agreement regarding our DCT intellectual property. The license agreement terms included an upfront cash payment of $10.5 million to us and an additional $3.5 million cash payment to us at a later date based upon the licensee's commercialization date of the technology, but no later than November 2007. Further, the license agreement calls for potential royalties to be paid on any future products utilizing the technology up to $11.0 million; we believe that work on certain products was recently suspended that would utilize the technology, so potential royalties from that transaction are unlikely. The $10.5 million was reflected as a benefit to operating expenses on the consolidated statement of operations under the caption, "license and patent fee income", as the cash had been received and we have fulfilled all of our obligations related to that payment. We will not recognize the $3.5 million in our financial statements until the related cash payment is received. There is no guarantee that we will receive any future payments from this transaction.

During the license agreement negotiations, we also entered into other agreements, including the sale of various fixed assets, primarily testing equipment and miscellaneous engineering equipment that Iomega had used as part of the DCT Program. We received $1.2 million of cash for these assets resulting in a gain of $1.1 million. The breakout of the gain between "cost of sales" and "research and development" was determined based upon where the initial expense to purchase the respective assets was recorded. All of these charges and gains were reflected in the Other Products business segment.

A breakdown of the DCT Program license fees, impairment and other charges incurred during 2004 is included in the table below.

(In thousands)	Amount	Financial Statement Line Item
License fees	$10,500	License and patent fee income
Fixed asset impairments	(4,488)	Cost of sales
Gain from sale of DCT assets	613	Cost of sales
Gain from sale of DCT assets	543	Research and development
Other charges (primarily supplier claims)	(527)	Cost of sales
Net DCT gain	$ 6,641	
Statement of operations breakout		
Cost of sales	$ (4,402)	
Research and development	543	
License and patent fee income	10,500	
Net DCT gain	$ 6,641	

Litigation Settlements

3.26

NOVELL, INC. (OCT)

(Amounts in thousands)	2005	2004	2003
Net revenue			
Software licenses	$ 213,803	$ 234,037	$ 265,256
Maintenance and services	983,893	931,880	840,240
Total net revenue	1,197,696	1,165,917	1,105,496
Cost of revenue			
Software licenses	21,600	23,478	31,773
Maintenance and services	421,519	392,201	406,945
Total cost of revenue	443,119	415,679	438,718
Gross profit	754,577	750,238	666,778
Operating expenses			
Sales and marketing	388,846	365,319	383,742
Product development	200,630	195,864	180,842
General and administrative	122,026	102,437	110,963
Restructuring expenses	59,106	22,903	43,067
Purchased in-process research and development	480	—	920
Gain on sale of property, plant and equipment	(1,589)	(1,977)	(24,934)
Gain on settlement of potential litigation	(447,560)	—	—
Total operating expenses	321,939	684,546	694,600
Income (loss) from operations	$ 432,638	$ 65,692	$ (27,822)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

P (In Part): Legal Proceedings

On November 8, 2004, we entered into an agreement with Microsoft Corporation ("Microsoft") to settle potential antitrust litigation related to our NetWare operating system in exchange for $536 million in cash. On November 18, 2004, we received $536 million in cash from Microsoft. The financial terms of the NetWare settlement agreement, net of related legal fees of $88 million, resulted in a pre-tax gain of approximately $447.6 million in fiscal 2005.

Insurance Recoveries

3.27

UNIVERSAL HEALTH SERVICES, INC. (DEC)

(In thousands)	2005	2004	2003
Net revenues	$3,935,480	$3,637,490	$3,153,174
Operating charges			
Salaries, wages and benefits	1,625,996	1,490,241	1,257,503
Other operating expenses	921,118	862,870	735,664
Supplies expense	489,999	463,381	383,563
Provision for doubtful accounts	368,058	307,014	252,267
Depreciation and amortization	155,478	142,481	119,164
Lease and rental expense	60,790	60,907	52,675
Hurricane related expenses	165,028	—	—
Hurricane insurance recoveries	(81,709)	—	—
	3,704,758	3,326,894	2,800,836
Income before interest expense, minority interests and income taxes	$ 230,722	$ 310,596	$ 352,338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

J) Self-Insured Risks

We provide for self-insured risks, primarily general and professional liability claims and workers' compensation claims, based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Estimated losses form asserted and incurred but not reported claims are accrued based on our estimates of the ultimate costs of the claims, which includes costs associated with litigating or settling claims, and the relationship of past reported incidents to eventual claims payments. All relevant information, including our own historical experience, the nature and extent of existing asserted claims and reported incidents, and independent actuarial analyses of this information, is used in estimating the expected amount of claims. We also consider amounts that may be recovered from excess insurance carries, state guaranty funds and other sources in estimating our ultimate net liability for such risk. We also maintain a self-insured workers' compensation program. The ultimate costs related to these programs includes expenses for claims incurred and reported in addition to an accrual for the estimated expenses incurred with claims incurred but not yet reported. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense.

13) Impact of Hurricane Katrina

In August, 2005, our facilities listed below, which comprised 6% of our net revenues during the six months ended June 30, 2005, were severely damage from Hurricane Katrina. Since the Hurricane, all facilities remain closed and non-operational and we continue to assess the damage and the likely recovery period for the facilities and surrounding communities.

Methodist Hospital—located in New Orleans, Louisiana consisting of Methodist Hospital ("Methodist"), a six-story, 306-bed acute-care facility and Lakeland Medical Pavilion ("Lakeland"), a two-story, 54-bed acute-care facility.

Chalmette Medical Center—located in Chalmette, Louisiana consisting of Chalmette Medical Center ("Chalmette"), a two-story, 138-bed acute-care facility and Virtue Street Pavilion, a one-story, 57-bed facility providing physical rehabilitation, skilled nursing and inpatient behavioral health services. The majority of the real estate assets of the 138-bed Chalmette Medical Center facility are owned by Universal Health Realty Income Trust (the "Trust") and leased by us.

Hurricane Related Expenses

Many of the Hurricane related expenses and amount of insurance recoveries discussed below were based on our damage assessments of the real property and equipment at each of the above-mentioned facilities affected by the Hurricane. However, given the wide-spread damage to each facility and surrounding communities, at this time, we are unable to predict with certainty the ultimate amount of damage sustained by each facility, the ultimate replacement cost of the damaged assets or the net realizable value of the damaged assets. Therefore, it is likely that we will record additional charges in future periods related to Hurricane Katrina and our estimates of the charges may change by amounts which could be material.

Included in our financial results for 2005 was a combined after-tax charge of $99 million ($165 million pre-tax and pre-minority interest) consisting of the following (amounts in thousands):

	Amount
Property write-down	$53,609[A]
Accrued payable to Universal Health Realty Income Trust based on independent appraisals	23,964[B]
Increase in provision for doubtful accounts and allowance for unbilled revenue	20,836[C]
Provision for asset impairment	19,561[D]
Post-hurricane salaries, wages and benefits paid to employees of affected facilities	17,064[E]
Building remediation expenses	16,840[F]
Other expenses	13,154[G]
Subtotal—pre-tax, pre-minority interest hurricane-related expenses	165,028
Less: Minority interests in hurricane-related expenses	(9,228)
Subtotal pre-tax hurricane-related expenses	155,800
Income tax benefit	(56,758)
After-tax hurricane-related expenses	$ 99,042

[A] Consists of the combined net book value of the damaged or destroyed depreciable assets at assets at each facility based on our assessments of the real estate assets and equipment. Since the net book values of the damaged assets were not separately determinable, the write-downs were determined using the estimated replacement cost of the damaged assets as compared to the total estimated replacement costs of all assets of each facility.

[B] The majority of the real estate assets of Chalmette are leased by us from the Trust and according to the terms of the lease in such circumstances, we have the obligation to: (i) restore the property to substantially the same condition existing before the damage; (ii) offer to acquire the property in accordance with the terms of the lease, or; (iii) offer a substitution property equivalent in value to Chalmette. Independent appraisals were obtained by us and the Trust which indicated that the pre-Hurricane fair market value of the facility was $24.0 million which is recorded in other accrued liabilities as of December 31, 2005. The existing lease on Chalmette remains in place and rental income will continue for a period of time while we evaluate our options. Pursuant to the agreement, if we decide not to rebuild the facility, the Trust will then decide whether to accept our offer to purchase the facility or substitute other property or to accept the insurance proceeds and terminate the existing lease on the facility. We have been discussing with the Trust the various alternatives available to the Trust and us under the lease with Chalmette including potentially fulfilling our Chalmette lease obligation by offering the Trust a substitute property or properties equivalent in value. Any arrangement will be subject to the approval of our Board of Directors and the Independent Trustees of the Trust.

[C] Increse in provision for doubtful accounts was recorded to fully reserve for all accounts receivable outstanding for each facility since the Hurricane has left many patients without the financial resources required to pay bills. In addition, a provision was recorded to fully reserve for all net patient revenue that was unbilled at the time of the Hurricane. Although if possible, we plan to submit bills for unbilled services, many of the patient records containing the supporting documentation for services performed were damaged in the Hurricane thereby making the billing and collection process extremely difficult.

[D] Consists of asset impairment charges resulting from the Hurricane to further reduce the carrying-values of the depreciable real estate assets to their estimated net realizable values based on a projection of estimated future cash flows.

[E] Consists of salaries, wages and benefits expense for employees of affected facilities during the post-Hurricane period through December 31, 2005. Most of the employees of these facilities had their employment terminated in early October, 2005, although certain benefits continued through December 31, 2005.

[F] Consists of expenses incurred in connection with remediation of the Hurricane-damaged properties including removal of damaged property and debris and sealing of the buildings to prevent further weather-related deterioration.

[G] Consists of various other expenses related to the Hurricane and its aftermath including expenses incurred in connection with the patients, employees and property of each facility.

Hurricane Insurance Recoveries

Included in our financial results during 2005 were Hurricane related insurance recoveries of $82 million reflecting the estimated minimum level of commercial insurance proceeds due to us. As of December 31, 2005, we received $75 million of these insurance proceeds and we received an additional $2 million in early 2006. At the time of the Hurricane, we maintained commercial insurance policies with a combined potential coverage of $279 million for property damage and business interruption insurance.

Due to the nature and extent of the overall damage to the area, neither we nor our commercial insurance adjusters have been able to complete a full assessment of the impacted facilities to determine the exact nature and extent of the losses. Although our insurance claims for Hurricane-related losses will exceed the recoveries we have recorded as of December 31, 2005, which we believe entitles us to Hurricane-related insurance proceeds in excess of those recorded as of December 31, 2005, the timing and amount of such proceeds can not be determined at this time since it will be based on factors such as loss causation, ultimate replacement costs of damaged assets and ultimate economic value of business interruption claims.

The $49 million of after-tax Hurricane-related insurance recoveries included in our financials results during 2005 was calculated as follows:

	Amount
Hurricane insurance recoveries	$ 81,709
Less: minority interests in Hurricane insurance recoveries	(5,158)
Hurricane insurance recoveries before income taxes	76,551
Less: provision for income taxes	(27,888)
After-tax Hurricane insurance recoveries	$ 48,663

Rentals

3.28

JLG INDUSTRIES, INC. (JUL)

(In thousands)	2005	2004	2003
Revenues			
Net sales	$1,713,782	$1,170,186	$724,819
Financial products	11,915	15,203	19,184
Rentals	9,333	8,573	7,125
	1,735,030	1,193,962	751,128
Cost of sales	1,447,785	968,562	616,686
Gross profit	$ 287,245	$ 225,400	$134,442

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

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

Revenue Recognition (In Part)

Revenue from certain equipment lease contracts is accounted for as sales-type leases. The present value of all payments, net of executory costs (such as legal fees), is recorded as revenue and the related cost of the equipment is charged to cost of sales. The associated interest is recorded over the term of the lease using the interest method. In addition, net revenues include rental revenues earned on the lease of equipment held for rental. Rental revenues are recognized in the period earned over the lease term.

Debt Extinguishment

3.29

UTSTARCOM, INC. (DEC)

(In thousands)	2005	2004	2003
Net sales			
Unrelated party	$2,533,792	$2,539,706	$1,756,785
Related party	395,551	144,673	184,436
	2,929,343	2,684,379	1,941,221
Cost of net sales			
Unrelated party	2,258,824	1,996,188	1,245,761
Related party	206,902	91,409	79,518
Gross profit	463,617	596,782	615,942
Operating expenses			
Selling, general and administrative	372,291	303,822	188,859
Research and development	247,133	219,045	155,676
In-process research and development	660	1,400	10,686
Amortization of intangible assets	25,853	15,551	8,370
Restructuring	29,669	—	—
Impairment of long-lived assets	218,094	12,706	—
Total operating expenses	893,700	552,524	363,591
Operating (loss) income	(430,083)	44,258	252,351
Interest income	7,091	6,172	3,194
Interest expense	(16,764)	(6,916)	(4,671)
Gain on extinguishment of subordinated notes	31,392	—	—
Other income, net	43,665	15,431	5,345
(Loss) income before income taxes, minority interest and equity in loss of affiliated companies	$ (364,699)	$ 58,945	$ 256,219

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Debt

The following represents the outstanding borrowings at December 31, 2005 and 2004:

(In thousands)	2005	2004
Bank loans	$198,826	$358,155
Notes payable	—	1,183
Other	300	—
Convertible subordinated notes	274,600	402,500
Total debt	$473,726	$761,838
Long-term debt	274,900	410,655
Short-term debt	$198,826	$351,183

On March 12, 2003, the Company completed an offering of $402.5 million of convertible subordinated notes due March 1, 2008 to qualified buyers pursuant to Rule 144A under the Securities Act of 1933. The notes bear interest at a rate of $\frac{7}{8}$% per annum and are convertible into the Company's common stock at a conversion price of $23.79 per share and are subordinated to all present and future senior debt of the Company. Holders of the notes may convert their notes only if: (i) the price of the Company's common stock issuable upon conversion of a note reaches a specified threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the notes falls below certain thresholds. At the initial conversion price, each $1,000 principal amount of notes will be convertible into approximately 42.0345 shares of common stock. Expenses associated with the convertible subordinated notes issuance were $11.7 million and have been recorded in other long-term assets and are being amortized over the life of the notes.

In 2005, the Company entered into agreements to exchange a total of 4,988,100 shares of the Company's common stock, with a fair value of approximately $37.6 million and approximately $57.1 million in cash for outstanding convertible notes with an aggregate principal amount of $127.9 million, held by five of its note holders. These exchanges are considered an early extinguishment of debt in which the aggregate fair value of the common stock and cash is less than the carrying value of the convertible notes. Accordingly, the Company recorded a gain, net of write-off of unamortized issuance expenses, of $31.4 million for the year ended December 31.2005 on such extinguishment in accordance with the provisions of Accounting Principles Board Opinion No. 26, "Early Extinguishment of Debt."

Concurrent with the issuance of the convertible notes, the Company entered into a convertible bond hedge and call option transaction at a cost of $43.8 million. In 2005, the convertible bond hedge and call option were amended as a result of the aforementioned early extinguishment of the convertible notes. As part of the amendment, the Company received proceeds of $1.4 million which was recorded against additional paid-in capital. The amended convertible bond hedge allows the Company to purchase 11.5 million shares of its common stock at $23.79 per share from the other party to the agreement. The written call option allows the holder to purchase 11.5 million shares of the Company's common stock from the Company at $32.025 per share. Both the bond hedge and call option transactions may be settled at the Company's option either in cash or net shares and expire on March 1, 2008.

The Company recorded these instruments at cost, and their carrying value at December 31, 2005 equaled their original cost as adjusted for amendments related to the early extinguishment of debt. The convertible bond hedge and call option transactions are expected to reduce the potential dilution from conversion of the notes. The options have been included in stockholders' equity in accordance with the guidance in EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

Nonrecurring Gain

3.30

ST. JUDE MEDICAL, INC. (DEC)

(In thousands)	2005	2004	2003
Net sales	$2,915,280	$2,294,173	$1,932,514
Cost of sales			
Cost of sales before special charges	796,761	666,977	603,091
Special charges	—	12,073	—
Total cost of sales	796,761	679,050	603,091
Gross profit	2,118,519	1,615,123	1,329,423
Selling, general and administrative expense	968,888	759,320	632,395
Research and development expense	369,227	281,935	241,083
Purchased in-process research and development charges	179,174	9,100	—
Special charges (credits)	(11,500)	28,810	—
Operating profit	$ 612,730	$ 535,958	$ 455,945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Commitments and Contingencies

Litigation (In Part)

Symmetry™ Bypass System Aortic Connector Litigation

In September 2004, management committed the Company to a plan to discontinue developing, manufacturing, marketing and selling its Symmetry™ Bypass System Aortic Connector (Symmetry™ device). The Company has been sued in various jurisdictions by claimants who allege that the Company's Symmetry™ device caused bodily injury or might cause bodily injury. The Company determined that it was probable future legal fees to defend the cases would be incurred and that the amount of such fees was reasonably estimable. As a result, the Company recorded a pre-tax charge of $21.0 million in the third quarter of 2004 (see Note 7) to accrue for legal fees in connection with claims involving the Symmetry™ device.

The Company's Symmetry™ device was cleared through a 510(K) submission to the FDA, and therefore, the Company is unable to rely on a defense under the doctrine of federal preemption that such suits are prohibited. Given the Company's self-insured retention levels under its product liability insurance policies, the Company expects that it will be solely responsible for these lawsuits, including any costs of defense, settlements and judgments.

Although four cases asserted against the Company involving the Symmetry™ device sought class-action status, no class actions were certified in those cases. In one of those matters seeking class action status, the case was dismissed by the court, and the plaintiff appealed the dismissal. In another, a Magistrate Judge recommended that the case not proceed as a class action. In the third case, the trial judge denied class certification in a July 26, 2005 decision which was not appealed. No motion requesting the court to certify a class action was ever pursued in the fourth case. Therefore, as of February 16, 2006, no class actions have been certified in cases involving the Symmetry™ device, and all four cases where class actions were initially sought have now been resolved, including the case where the plaintiff appealed the court's dismissal of the case.

As of February 16, 2006, all but three of the cases which allege that the Symmetry™ device caused bodily injury or might cause bodily injury have been resolved. One of the three unresolved cases was initiated in the first quarter of 2006. The three unresolved cases involving the Symmetry™ device are pending in state court in Minnesota and state court in California. The first of the unresolved cases involving the Symmetry™ device was commenced against the Company on June 17, 2004, and the most recently initiated unresolved case was commenced against the Company on January 26, 2006. Each of the complaints in these unresolved cases request damages in excess of $50 thousand. In addition to this litigation, some persons have made claims against the Company involving the Symmetry™ device without filing a lawsuit, although, as with the lawsuits, the vast majority of the claims that the Company has been made aware of as of February 16, 2006 have been resolved.

With the resolution of over 90% of the cases and claims asserted involving the Symmetry™ device, the Company recorded a pre-tax special credit of $11.5 million in the third quarter of 2005 (see Note 7). Potential losses arising from future settlements or judgments of unresolved cases and claims are possible, but not estimable, at this time. Moreover, the Company currently expects that any costs (the material components of which are settlements, judgments, legal fees and other related defense costs) not covered by any remaining reserve will not have a material adverse effect on the Company's consolidated financial position, although such costs may be material to the Company's consolidated earnings and cash flows of a future period.

Note 7 (In Part): Purchased In-Process Research and Development (IPR&D) and Special Charges (Credits)

Special Charges (Credits)

Fiscal Year 2005

Symmetry™ Bypass System Aortic Connector Litigation

During the third quarter of 2005, over 90% of the cases and claims asserted involving the Symmetry™ device were resolved. As a result, the Company reversed $14.8 million of the pre-tax $21.0 million special charge that was recorded in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device. Additionally, the Company recorded a pre-tax charge of $3.3 million in the third quarter of 2005 to accrue for settlement costs negotiated in these related cases. These adjustments resulted in a net pre-tax benefit of $11.5 million that the Company recorded in the third quarter of 2005 related to Symmetry™ device product liability litigation. See Note 5 for further details on the outstanding litigation against the Company relating to the Symmatry™ device.

Fiscal Year 2004

Symmetry™ Bypass System Aortic Connector Product Line Discontinuance

On September 23, 2004, management committed the Company to a plan to discontinue developing, manufacturing, marketing and selling its Symmetry™ device. The decision to discontinue developing, manufacturing, marketing and selling the Symmetry™ device was primarily based on operating losses incurred related to the product over the previous three years and the prospect of ongoing operating losses, resulting from a decrease in the number of coronary artery bypass graft surgery cases and an apparent slow down in the adoption of off-pump procedures for which the Symmetry™ device was developed.

In conjunction with the plan, the Company recorded a pre-tax charge in the third quarter of 2004 of $14.4 million. The charge was comprised of $4.4 million of inventory write-offs, $4.1 million of fixed asset write-offs, $3.6 million of sales returns, $1.3 million of contract termination and other costs, primarily related to a leased facility and $1.0 million in workforce reduction costs. These activities and all payments required in connection with the charge have been completed.

Symmetry™ Bypass System Aortic Connector Litigation

The Company has been sued in various jurisdictions by claimants who allege that the Company's Symmetry™ device caused bodily injury or might cause bodily injury. During the third quarter of 2004, the number of lawsuits involving the Symmetry™ device increased and the number of persons asserting claims outside of litigation increased as well. The Company determined that it was probable future legal fees to defend the cases would be incurred and that the amount of such fees was reasonably estimable. As a result, the Company recorded a pre-tax charge of $21.0 million in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device.

EXPENSES AND LOSSES

3.31 Paragraphs 80 and 83 of FASB *SFAC No. 6* define expenses and losses.

> 80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
>
> 83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

3.32 Table 3-5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Table 3-6 summarizes the nature of expenses, other than cost of goods sold. Excluded from Table 3-6 are rent (Table 2-30), employee benefits, depreciation (Table 3-14), and income taxes (Table 3-15). Table 3-7 lists losses most frequently disclosed by the survey companies. Excluded from Table 3-7 are losses shown after the caption for income taxes (Table 3-17), segment disposals, and extraordinary losses (Table 3-18).

3.33 Examples of expenses and losses follow.

3.34

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	2005	2004	2003	2002
Single Amount				
Cost of sales	214	217	230	222
Cost of goods sold	90	91	95	89
Cost of products sold	68	73	74	73
Cost of revenues	33	33	38	33
Elements of cost	10	8	4	6
Other captions	98	107	102	110
	513	**529**	**543**	**533**
More than one amount	87	71	57	67
Total Companies	**600**	**600**	**600**	**600**

3.35

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Selling, general and administrative	347	345	344	340
Selling and administrative	104	109	110	114
General and/or administrative	112	101	103	99
Selling	45	38	37	43
Interest	540	549	543	556
Research, development, engineering, etc	294	296	302	284
Advertising	220	215	207	191
Warranty	103	52	N/C*	N/C*
Provision for doubtful accounts	99	82	54	64
Shipping	65	72	59	61
Taxes other than income taxes	20	21	19	20
Maintenance and repairs	16	14	10	9
Exploration, dry holes, abandonments	10	14	14	17

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

3.36

TABLE 3-7: LOSSES

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Intangible asset amortization	323	249	205	214
Restructuring of operations	249	227	219	263
Write-down of assets	211	194	205	214
Foreign currency transactions	97	101	82	91
Debt extinguishment	77	84	59	N/C*
Sale of assets	73	71	80	96
Impairment of intangibles	72	62	72	97
Litigation settlements	59	60	47	43
Minority interests	57	58	54	62
Change in fair value of derivatives	54	60	55	42
Environmental cleanup	36	33	23	24
Equity in losses of investees	28	31	50	74
Sale of receivables	25	36	32	31
Purchased R&D	20	18	14	19
Merger costs	16	14	12	25
Royalties	13	13	9	20
Start-up costs	11	7	6	6
Distributions on preferred securities of subsidiary trust	2	6	4	6

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

EXPENSES

Cost of Goods Sold

3.37

AIRGAS, INC. (MAR)

(In thousands)	2005	2004	2003
Net sales	$2,411,409	$1,895,468	$1,786,964
Costs and expenses			
Cost of products sold (excluding depreciation expense)	1,179,045	908,681	850,316
Selling, distribution and administrative expenses	917,547	731,827	698,228
Depreciation	106,120	82,567	73,482
Amortization	5,464	5,389	6,362
Special charges (recoveries), net	—	(776)	2,694
Total costs and expenses	2,208,176	1,727,688	1,631,082
Operating income	$ 203,233	$ 167,780	$ 155,882

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

O) Cost of Products Sold

Cost of products sold for the Distribution segment principally consists of direct material costs and freight-in for bulk gas purchases and hardgoods (welding supplies and equipment, safety products and industrial tools and supplies). Maintenance costs associated with cylinders, cryogenic liquid containers and bulk tanks are also reflected in cost of products sold.

Cost of products sold for All Other Operations, which produce much of the gas sold, consists of direct material costs, direct labor, manufacturing overhead, freight-in and internal transfer costs associated with the production of certain gas products, principally, dry ice, carbon dioxide, nitrous oxide, specialty gases, as well as the oxygen, nitrogen and argon sold by the Company's consolidated affiliate, National Welders.

3.38

LIZ CLAIBORNE, INC. (DEC)

(In thousands)	2005	2004	2003
Net sales	$4,847,753	$4,632,828	$4,241,115
Cost of goods sold	2,549,396	2,490,266	2,351,324
Gross profit	$2,298,357	$2,142,562	$1,889,791

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Cost of Goods Sold

Cost of goods sold for wholesale operations include the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, import costs, third-party inspection activities, buying agent commissions and provisions for shrinkage. For retail operations, in-bound freight from the Company's warehouse to its own retail stores is also included. Warehousing activities including receiving, storing, picking, packing and general warehousing charges are included in Selling, general & administrative expenses ("SG&A") and, as such, the Company's gross profit may not be comparable to others who may include these expenses as a component of Cost of goods sold.

Research and Development

3.39

COHERENT, INC. (SEP)

(In thousands)	2005	2004	2003
Net sales	$516,252	$494,954	$406,235
Cost of sales	298,583	287,551	257,644
Gross profit	217,669	207,403	148,591
Operating expenses			
Research and development	57,545	62,705	51,025
In-process research and development	1,577	—	6,338
Selling, general and administrative	115,827	115,043	106,147
Restructuring, impairment and other charges (recoveries)	(61)	(3,093)	35,163
Amortization of intangible assets	7,019	6,698	5,147
Total operating expenses	181,907	181,353	203,820
Income (loss) from operations	$ 35,762	$ 26,050	$(55,229)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Research and Development

Research and development expenses include salaries, contractor and consultant fees, supplies and materials, as well as costs related to other overhead such as depreciation, facilities, utilities and other departmental expenses. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as incurred as they do not directly relate to any particular licensee, license agreement or license fee.

We treat third party and government funding of our research and development activity, where we are the primary beneficiary of such work conducted, as a credit to research and development cost. Amounts offset against research and development cost were not material in any of the periods presented.

3.40

SENSIENT TECHNOLOGIES CORPORATION (DEC)

(In thousands)	2005	2004	2003
Revenue	$1,023,930	$1,047,133	$987,209
Cost of products sold (includes restructuring charges of $4,340 in 2005	731,253	734,596	677,414
Selling and administrative expenses	189,998	183,381	165,835
Restructuring and other charges	8,465	—	6,476
Operating income	$ 94,214	$ 129,156	$137,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Research and Development

Research and development costs are recorded in selling and administrative expenses in the year they are incurred. Research and development costs were $26.4 million, $24.3 million and $22.9 million during the years ended December 31, 2005, 2004 and 2003, respectively.

Advertising

3.41

BROWN-FORMAN CORPORATION (APR)

(In millions)	2003	2004	2005
Net sales	$2,376	$2,577	$2,729
Excise taxes	318	364	417
Cost of sales	878	915	912
Gross profit	1,180	1,298	1,400
Advertising expenses	321	354	371
Selling, general, and administrative expenses	491	534	574
Goodwill impairment	—	—	37
Other expense (income), net	(4)	10	—
Operating Income	$ 372	$ 400	$ 418

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions)

1 (In Part): Accounting Policies

Advertising Costs

We expense most advertising costs as we incur them, but we capitalize and amortize certain direct-response advertising costs over periods not exceeding one year. Capitalized advertising costs totaled $9 and $6 at April 30, 2004 and 2005, respectively.

Warranty

3.42

FORTUNE BRANDS, INC. (DEC)

(In millions)	2005	2004	2003
Net sales	$7,061.2	$6,145.2	$5,112.6
Cost of products sold	3,843.0	3,342.1	2,686.5
Excise taxes on spirits and wine	326.5	299.7	302.0
Advertising, selling, general and administrative expenses	1,694.4	1,433.6	1,236.4
Amortization of intangibles	33.4	35.4	17.2
Restructuring charges	—	9.8	2.2
Operating income	$1,163.9	$1,024.6	$ 868.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Warranty Reserves

We offer customers various warranty terms based upon the type of product that is sold. We determine warranty expense in accordance with the policy established at each operating company. The main consideration is historic claim experience, which is company-specific based upon the nature of the product category. Warranty expense is generally recorded in cost of products sold at the time of sale. Refer to Note 15, "Product Warranties."

15. Product Warranties

We generally record warranty expense at the time of sale. We offer our customers various warranty terms based upon the type of product that is sold. Warranty expense is determined in accordance with the policy established at each operating company. The main consideration is historic claim experience, which is company-specific based upon the nature of the product category. Warranty expense is generally recorded at the time of sale.

The following table summarizes activity related to our product warranty liability during the years ended December 31, 2005, 2004 and 2003:

(In millions)	2005	2004	2003
Reserve balance at the beginning of the year	$(16.1)	$(12.9)	$ (9.2)
Provision for warranties issued	(33.7)	(33.9)	(28.7)
Acquisitions	(0.6)	(0.2)	(0.1)
Discontinued operations	2.1	—	—
Settlements made (in cash or in kind)	35.3	30.9	25.1
Reserve balance at end of year	$(13.0)	$(16.1)	$(12.9)

Provision for Doubtful Accounts

3.43

DELUXE CORPORATION (DEC)

(In thousands)	2005	2004	2003
Revenue	$1,716,294	$1,567,015	$1,242,141
Cost of goods sold	608,361	535,949	425,965
Gross profit	1,107,933	1,031,066	816,176
Selling, general and administrative expense	803,094	683,154	497,255
Operating income	$ 304,839	$ 347,912	$ 318,921

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Trade Accounts Receivable

Trade accounts receivable are initially recorded at fair value upon the sale of goods or services to customers. They are stated net of allowances for uncollectible accounts which represent estimated losses resulting from the inability of customers to make the required payments. When determining the allowances for uncollectible accounts, we take several factors into consideration including the overall composition of accounts receivable aging, our prior history of accounts receivable write-offs, the type of customer and our day-to-day knowledge of specific customers. Changes in the allowances for uncollectible accounts are recorded as bad debt expense and are included in selling, general and administrative (SG&A) expense in our consolidated statements of income.

Note 2 (In Part): Supplementary Balance Sheet Information

Trade Accounts Receivable

Net trade accounts receivable was comprised of the following at December 31:

(In thousands)	2005	2004
Trade accounts receivable	$113,141	$115,728
Allowances for uncollectible accounts	(7,903)	(5,199)
Trade accounts receivable—net	$105,238	$110,529

Changes in the allowances for uncollectible accounts for continuing operations were as follows:

(In thousands)	2005	2004	2003
Balance, beginning of year	$ 5,199	$ 1,881	$ 1,850
Bad debt expense	8,808	6,921	3,130
Write-offs, net of recoveries	(6,104)	(3,603)	(3,099)
Balance, end of year	$ 7,903	$ 5,199	$ 1,881

Shipping

3.44

RYERSON INC. (DEC)

(In millions)	2005	2004	2003
Net sales	$5,780.5	$3,302.0	$2,189.4
Cost of materials sold	4,893.5	2,810.8	1,830.4
Gross profit	887.0	491.2	359.0
Warehousing and delivery	318.8	175.2	161.9
Selling, general and administrative	358.9	218.3	187.5
Restructuring and plant closure costs	4.0	3.6	6.2
Pension curtailment gain	(21.0)	—	—
Gain on sale of assets	(6.6)	(5.6)	—
Operating profit	$ 232.9	$ 99.7	$ 3.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Statement of Accounting and Financial Policies

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are classified in "Net Sales" in our Consolidated Statement of Operations and Reinvested Earnings. Shipping and handling costs, primarily distribution costs, are classified in "Warehousing and delivery" expense in our Consolidated Statement of Operations and Reinvested Earnings. These costs totaled $116.6 million in 2005, $70.8 million in 2004 and $59.3 million in 2003.

LOSSES

Intangible Asset Amortization

3.45

TRIBUNE COMPANY (DEC)

(In thousands of dollars)	2005	2004	2003
Operating revenues			
Publishing			
Advertising	$3,244,100	$3,228,493	$3,108,802
Circulation	596,163	643,947	663,870
Other	256,587	257,410	264,248
Total	4,096,850	4,129,850	4,036,920
Broadcasting and entertainment	1,498,767	1,596,397	1,557,909
Total operating revenues	5,595,617	5,726,247	5,594,829
Operating expenses			
Cost of sales (exclusive of items shown below)	2,736,998	2,708,394	2,635,538
Selling, general and administrative	1,467,976	1,566,475	1,370,431
Depreciation	224,625	214,226	214,250
Amortization of intangible assets	19,195	18,863	14,136
Total operating expenses	4,448,794	4,507,958	4,234,355
Operating profit	$1,146,823	$1,218,289	$1,360,474

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets (In Part)

Upon the adoption of FAS No. 142 at the beginning of fiscal 2002, the Company treated the intangible assets associated with network affiliation agreements as having indefinite lives and stopped recording amortization expense on these assets. In December 2003, the staff of the Securities and Exchange Commission provided guidance regarding their accounting position in this area indicating that network affiliation agreements should be amortized. As a result, the Company began amortizing these assets in the fourth quarter of 2003 using a 40-year life. The Company believes the 40-year life is representative of the remaining expected useful life of the network affiliation intangibles. The provisions of FAS No. 142 required the Company to perform an impairment analysis at the time of a change in the estimated useful life of an intangible asset which was previously not being amortized. No adjustment to the network affiliation intangible assets was required as a result of this impairment review performed in the fourth quarter of 2003. Beginning in 2004, the Company no longer performs an annual test of the impairment of its network affiliation agreements under FAS No. 142, but will perform an impairment test if indicators of impairment are present, as required by FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Note 5 (In Part): Goodwill and Other Intangible Assets

Goodwill and other intangible assets at Dec. 25, 2005 and Dec. 26, 2004 consisted of the following (in thousands):

	2005			2004		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
Subscribers (useful life of 15 to 20 years)	$190,657	$(62,110)	$128, 547	$190,657	$(51,937)	$138,720
Network affiliation agreements (useful life of 40 years)	290,320	(16,330)	273,990	290,320	(9,073)	281,247
Other (useful life of 3 to 40 years)	23,482	(6,696)	16,786	23,277	(4,965)	18,312
Total	$504,459	$(85,136)	$419,323	$504,254	$(65,975)	$438,279

The changes in the carrying amount of intangibles and goodwill during the years ended Dec. 25, 2005 and Dec. 26, 2004 were as follows (in thousands):

	Publishing	Broadcasting and Entertainment	Total
Intangible assets subject to amortization			
Balance as of Dec. 28, 2003	$99,504	$364,700	$464,204
Amortization expense	(7,427)	(11,436)	(18,863)
Amortizable intangibles acquired during year	138	—	138
Adjustments related to finalization of purchase accounting	—	(7,200)	(7,200)
Balance as of Dec. 26, 2004	$92,215	$364,064	$438,279
Amortization expense	(7,231)	(11,964)	(19,195)
Amortizable intangibles acquired during year	239	—	239
Balance as of Dec. 25, 2005	$85,223	$334,100	$419,323

Estimated annual amortization expense will be approximately $20 million for each of the next five years, excluding the effects of any acquisitions or dispositions subsequent to Dec. 25, 2005.

3.46

VERISIGN, INC. (DEC)

(In thousands)	2005	2004	2003
Revenues	$1,609,494	$1,118,306	$1,017,345
Costs and expenses			
Cost of revenues	512,225	436,016	439,152
Sales and marketing	480,543	241,747	187,334
Research and development	95,339	60,405	49,408
General and administrative	194,597	164,029	173,094
Restructuring and other charges	21,053	24,780	74,633
Impairment of goodwill	—	—	81,885
Impairment of other intangible assets	—	—	71,534
Amortization of other intangible assets	101,638	79,440	181,736
Acquired in-process research and development	7,670	—	—
Total costs and expenses	1,413,065	1,006,417	1,258,776
Operating income (loss) from continuing operations	$ 196,429	$ 111,889	$ (241,431)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets.*" As of December 31, 2005, there were no other intangible assets with an indefinite useful life. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS No. 144, "*Accounting for Impairment or Disposal of Long-Lived Assets.*"

Note 7 (In Part): Goodwill and Other Intangible Assets

The following tables present details of VeriSign's other intangible assets:

(Dollars in thousands)	Gross Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Weighted-Average Remaining Life
2005				
Other intangible assets				
Customer relationships	$421,707	$(293,312)	$128,395	2.7 years
Technology in place	166,355	(114,650)	51,705	2.8 years
Carrier relationships	27,700	(7,271)	20,429	4.4 years
Non-compete agreement	20,828	(12,679)	8,149	1.2 years
Trade name	19,870	(4,856)	15,014	4.6 years
Other	1,950	(340)	1,610	3.4 years
Total other intangible assets	$658,410	$(433,108)	$225,302	3.0 years
2004				
Other intangible assets				
Customer relationships	$393,973	$(230,860)	$163,113	2.9 years
Technology in place	121,196	(99,435)	21,761	2.7 years
Carrier relationships	27,700	(2,667)	25,033	5.4 years
Non-compete agreement	16,220	(4,622)	11,598	1.7 years
Trade name	17,828	(1,728)	16,100	5.4 years
Other	23,208	(16,975)	6,233	0.9 years
Total other intangible assets	$600,125	$(356,287)	$243,838	3.2 years

Fully amortized other intangible assets are not included in the above tables. Amortization of other intangible assets was \$101.6 million, \$79.4 million, and \$181.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.

During 2005, VeriSign wrote off \$7.7 million of in-process research and development acquired in the purchase of LightSurf, iDefense, Moreover and RSI.

Estimated future amortization expense related to other intangible assets at December 31, 2005 is as follows:

(In thousands)	
2006	$ 93,148
2007	77,143
2008	22,760
2009	16,960
2010	7,897
Thereafter	7,394
	$225,302

Restructuring of Operations

3.47

LA-Z-BOY INCORPORATED (APR)

(In thousands)	2005	2004	2003
Sales	$2,048,381	$1,951,997	$2,064,198
Cost of sales			
Cost of goods sold	1,572,844	1,509,864	1,578,789
Restructuring	10,294	10,441	1,070
Total cost of sales	1,583,138	1,520,305	1,579,859
Gross profit	465,243	431,692	484,339
Selling, general and administrative	401,592	331,620	320,943
Write-down of intangibles	—	71,943	—
Operating income	$ 63,651	$ 28,129	$ 163,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Restructuring

In the first quarter of fiscal 2005, the decision was made to close three casegoods facilities, an upholstery plant and an upholstery warehouse. The casegoods facilities were closed as a result of continued underutilization of our domestic casegoods facilities due to an increase in our importing of product from overseas. The upholstery plant was closed and production was absorbed in another upholstery facility resulting in better production efficiencies. The casegoods plants were closed in the third quarter. Approximately 525 jobs were eliminated as a result of these closures. During fiscal 2005, pre-tax restructuring charges were \$10.3 million, or \$0.12 per diluted share, covering the following: write-down of certain fixed assets, write-down of certain inventories, payment of severance and benefits and other costs related to the shutdown. We expect to dispose of these plants by sale or abandonment if a sale is not practical. The restructuring expenses during 2005 were lower than we had originally anticipated because our charges to expense were offset by the gains on sale of assets previously written down through restructuring in the fourth quarter. The write-down was accounted for in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Severance costs and other costs were expensed as incurred throughout the current fiscal year in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* There are 30 employees remaining at these facilities.

During the first quarter of fiscal 2004, we announced the closing of three of our Casegoods Group manufacturing facilities. This action was the result of underutilization of certain manufacturing facilities as we transition to more foreign-sourced products in order to be competitive with imported furniture. The closure of these facilities resulted in the elimination of 480 jobs. Approximately 75 jobs were created at other facilities resulting from the closures. During fiscal 2004, pre-tax restructuring charges related to the restructuring were \$10.4 million, covering the write-down of certain fixed assets and inventories, lease costs and severance related costs, which were recorded in cost of sales. We expect to dispose of two manufacturing plants by sale, and the related write-down has been accounted for in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Our third plant was leased, and the lease expired in our fourth quarter of fiscal 2004. The plants ceased operations during fiscal year 2004, leaving three employees remaining at these facilities. The remaining liability will be paid out in fiscal 2006.

We have $4.0 million of assets held for sale included in other long-term assets on our consolidated balance sheet as of April 30, 2005, primarily as a result of the above restructurings. This includes $3.5 million of buildings and $0.5 million of equipment. All of these assets have been written down to their fair value and are currently being marketed.

Restructuring liabilities along with charges to expense, cash payments or asset write-downs were as follows:

(Amounts in thousands)	4/24/04 Balance	Charges to Expense	Cash Payment or Asset Write-Down	4/30/05 Balance
Fixed asset write-downs, net of gains	$ —	$ 4,619	$ (4,619)	$ —
Severance and benefit related costs	329	1,700	(1,991)	38
Inventory write-downs	—	2,450	(2,450)	—
Other	174	1,525	(1,699)	—
Total	$503	$10,294	$(10,759)	$ 38

(Amounts in thousands)	4/26/03 Balance	Charges to Expense	Cash Payment or Asset Write-Down	4/24/04 Balance
Fixed asset write-downs	$ —	$ 4,256	$ (4,256)	$ —
Severance and benefit related costs	313	1,389	(1,373)	329
Inventory write-downs	—	1,729	(1,729)	—
Other	543	3,067	(3,436)	174
Total	$856	$10,441	$(10,794)	$503

3.48

SYMANTEC CORPORATION (MAR)

(In thousands)	2005	2004	2003
Net revenues	$2,582,849	$1,870,129	$1,406,946
Cost of revenues			
Cost of sales	403,215	286,564	220,541
Amortization of acquired product rights	48,894	40,990	29,575
Total cost of revenues	452,109	327,554	250,116
Gross profit	2,130,740	1,542,575	1,156,830
Operating expenses			
Sales and marketing	843,724	660,573	525,029
Research and development	332,266	252,284	197,271
General and administrative	115,419	94,645	74,442
Amortization of other intangibles from acquisitions	5,416	2,954	2,787
Amortization of deferred stock-based compensation	4,524	—	—
Acquired in-process research and development	3,480	3,710	4,700
Restructuring	2,776	907	11,089
Integration planning	3,494	—	—
Patent settlement	375	13,917	—
Total operating expenses	1,311,474	1,028,990	815,318
Operating income	$ 819,266	$ 513,585	$ 341,512

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Restructuring

During fiscal 2005, we recorded $3 million of restructuring charges, of which $2 million was for costs of severance, related benefits, and outplacement services related to the termination of 51 employees located in the United States and Europe due to the consolidation and relocation of engineering and development functions. In addition we recorded an increase to the accrual relating to the fiscal 2002 restructuring plan of $1 million due to the termination of a sublease agreement for facilities in Eugene, Oregon. As of March 31, 2005, substantially all of the costs were paid.

During fiscal 2004, we recorded $1 million of restructuring charges for costs of severance, related benefits, and outplacement services for a member of our senior management team, as well as an increase to the accrual for excess facilities in Eugene, Oregon in connection with our fiscal 2002 restructuring plan. As of March 31, 2005, substantially all of the costs were paid.

During fiscal 2003, we recorded $11, million of restructuring charges, including costs of severance, related benefits, and outplacement services of $8 million and costs associated with the consolidation of certain facilities in the United States and Europe of $3 million. The costs resulted from relocating certain development, sales, and finance activities, realigning certain worldwide marketing efforts, and outsourcing our North American and European consumer support functions. As a result, we terminated 424 employees. As of March 31, 2005, substantially all of the costs were paid.

During fiscal 2002, we recorded costs associated with excess facilities and fixed assets associated with relocating certain sites in the United States and Europe. We moved our operations in Newport News, Virginia to a larger facility and we relocated our North American support group from Eugene, Oregon to an expanded facility in Springfield, Oregon. In addition, we consolidated our European support functions by relocating our Leiden, Netherlands operations to Dublin, Ireland and consolidating most of our United Kingdom facilities to one facility in Maidenhead, UK. As of March 31, 2005, $3 million remained accrued for excess facility costs. The accrual is classified in Other accrued liabilities in the Consolidated Balance Sheet as of March 31, 2005. We anticipate that substantially all of the remaining restructuring reserve balance will be paid by the end of fiscal 2006.

Write-Down of Assets

3.49

UNIFI, INC. (JUN)

(Amounts in thousands)	2005	2004	2003
Net sales	$799,446	$667,837	$747,681
Cost of sales	768,714	627,586	675,829
Selling, general and administrative expenses	43,157	46,333	48,182
Provision for bad debts	13,464	2,649	3,812
Interest expense	20,575	18,698	19,736
Interest income	(2,302)	(2,351)	(1,521)
Other (income) expense, net	(2,253)	(2,569)	(115)
Equity in (earnings) losses of unconsolidated affiliates	(6,788)	7,076	(10,627)
Minority interest (income) expense	(530)	(6,430)	4,769
Restructuring charges (recovery)	(341)	8,229	10,597
Arbitration costs and expenses	—	182	19,185
Alliance plant closure costs (recovery)	—	(206)	(3,486)
Write down of long-lived assets	603	25,241	—
Goodwill impairment	—	13,461	—
Loss from continuing operations before income taxes and extraordinary item	$(34,853)	$(70,062)	$(18,680)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies and Financial Statement Information

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company's cash flows.

14. Impairment Charges

During the third quarter of fiscal year 2004, management performed impairment testing for the domestic textured polyester business due to the continued challenging business conditions and reduction in volume and gross profit in the preceding quarter. As a result, management determined the fair value of the plant, property and equipment at $73.7 million using market prices of the assets. Management determined that the assets were in fact impaired because the carrying value was $98.9 million. This resulted in a $25.2 million write down of the assets, which is included in the "Write down of long-lived assets" line item in the Consolidated Statements of Operations. Subsequent to performing the SFAS No. 144 testing above, the entire domestic polyester segment was tested for impairment as of February 29, 2004. As a result of the testing, the Company recorded a goodwill impairment charge of $13.5 million in the third quarter of fiscal year 2004 to reduce the segment's goodwill to $0. The Company used the income approach and market approach to determine the fair value.

In June, 2005 the Company entered into a contract to sell 166 machines held by the nylon division. As a result, a $0.6 million charge was recorded to write the assets down from a net book value of $1.5 million to their fair value less cost to sell. This charge is recorded on the "Write down of long-lived assets" line item in the Consolidated Statements of Operations.

Foreign Currency Transactions

3.50

LOUISIANA-PACIFIC CORPORATION (DEC)

(Amounts in millions)	2005	2004	2003
Net sales	$2,598.9	$2,730.7	$2,168.7
Operating costs and expenses			
Cost of sales	1,783.3	1,634.3	1,416.8
Depreciation, amortization and cost of timber harvested	132.7	141.1	130.7
Selling and administrative	151.3	159.7	159.0
Other operating credits and charges, net	6.5	28.7	15.2
(Gain) loss on sale of and impairment of long-lived assets, net	3.5	21.5	(118.2)
Total operating costs and expenses	2,077.3	1,985.3	1,603.5
Income from operations	521.6	745.4	565.2
Non-operating income (expense)			
Interest expense, net of capitalized interest	(54.6)	(65.3)	(88.5)
Investment income	71.3	45.6	33.8
Loss on early extinguishment of debt	(0.5)	(41.5)	(1.5)
Foreign exchange gains (losses)	(1.4)	9.7	1.0
Total non-operating income (expense)	14.8	(51.5)	(55.2)
Income from continuing operations before taxes, equity in earnings of unconsolidated affiliates and cumulative effect of change in accounting principle	$ 536.4	$ 693.9	$ 510.0

NOTES TO THE FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The functional currency for the Company's Canadian subsidiaries is the U.S. dollar. The financial statements of these foreign subsidiaries are remeasured into U.S. dollars using the historical exchange rate for property, plant and equipment, timber and timberlands, goodwill, equity and certain other non-monetary assets and related depreciation and amortization on these assets and liabilities. LP uses the exchange rate at the balance sheet date for the remaining assets and liabilities, including deferred taxes. A weighted-average exchange rate is used for each period for revenues and expenses. These transaction gains or losses are recorded in Foreign exchange gains (losses) on the Consolidated Statements of Income. The functional currency of LP's Chilean subsidiary is the Chilean Peso. Translation adjustments, which are based upon the exchange rate at the balance sheet date for assets and liabilities and the weighted-average rate for the income statement, are recorded in Accumulated comprehensive loss in Stockholders equity.

Debt Extinguishment

3.51

CORNING INCORPORATED (DEC)

(In millions)	2005	2004	2003
Net sales	$4,579	$ 3,854	$3,090
Cost of sales	2,595	2,439	2,241
Gross margin	1,984	1,415	849
Operating expenses			
Selling, general and administrative expenses	756	653	599
Research development and engineering expenses	443	355	344
Amortization of purchased intangibles	13	38	37
Restructuring, impairment and other charges and (credits)	(38)	1,789	111
Asbestos settlement	197	33	413
Operating income (loss)	613	(1,453)	(655)
Interest income	61	25	32
Interest expense	(116)	(141)	(154)
(Loss) gain on repurchases and retirement of debt, net (Note 11)	(16)	(36)	19
Other income (expense), net	30	25	(1)
Income (loss) from continuing operations before income taxes	$ 572	$(1,580)	$ (759)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Debt

(In millions)	2005	2004
Current portion of long-term debt	$ 18	$ 478
Long-term debt		
Euro notes, 5.625%, due 2005		$ 189
Debentures, 7%, due 2007, net of unamortized discount of $15 million in 2004		85
Convertible notes, 4.875%, due 2008		96
Convertible debentures, 3.5%, due 2008		297
Zero coupon convertible debentures, 2%, due 2015, redeemable and callable in 2005		272
Notes, 6.3%, due 2009	$ 150	150
Euro notes, 6.25%, due 2010	355	408
Debentures, 6.75%, due 2013	100	100
Debentures, 5.90%, due 2014	200	200
Debentures, callable, 6.05%, due 2015	100	
Debentures, 6.20%, due 2016	200	200
Debentures, 8.875%, due 2016	81	81
Debentures, 8.875%, due 2021	82	82
Medium-term notes, average rate 8.1%, due through 2025	175	175
Debentures, 6.85%, due 2029	150	150
Other, average rate 2.9%, due through 2015	214	207
Total long-term debt	1,807	2,692
Less current portion of long-term debt	18	478
Long-term debt	$1,789	$2,214

Debt Retirements

During the years ended December 31, 2005, 2004 and 2003, we retired a significant portion of our outstanding notes and debentures as part of a debt reduction program. The debt was retired through a combination of cash repurchases and exchanges for Corning common stock. The following table summarizes the activities related to our debt retirements (in millions):

	Book Value of Debentures Retired	Cash Paid	Shares Issued	Gain (Loss)
2005 activity				
Convertible debentures, 3.5%, due 2008	$ 297	$ 2	31	
Euro notes, 5.625%, due 2005	189	189		
Oak $4\frac{7}{8}$% Subordinated notes, due 2008	96		6	
Debentures, 7% due 2007	88	100		$(12)
Zero coupon convertible debentures, 2%, due 2015	277	277(1)		(4)
Other loans payable	11	11		
Total 2005 activity	$ 958	$ 579	37	$(16)
2004 activity				
Convertible debentures, 3.5%, due 2008	$ 368	$ 37	38	$(36)
Zero coupon convertible debentures, 2%, due 2015	119	117		
Other loans payable	115	115		
Total 2004 activity	$ 602	$ 269	38	$(36)
2003 activity				
Zero coupon convertible debentures, 2%, due 2015	$1,239	$1,121	6	$ 20
Euro notes, 5.625%, due 2005	67	68		(1)
Other loans payable	181	181		
Total 2003 activity	$1,487	$1,370	6	$ 19

(1) The zero coupon convertible debentures cash payment includes $23 million of interest.

Sale of Assets

3.52

NATURE VISION, INC. (DEC)

	2005	2004
Sales, net	$24,254,059	$12,361,543
Cost of good sold	16,623,927	8,962,089
Gross profit	7,630,132	3,399,454
Selling, general and administrative expenses	6,007,722	3,156,166
Income from operations	1,622,410	243,288
Other income (expense)		
Interest expense	(141,514)	(40,952)
Interest income	519	4,094
(Loss) on Sale of Bookendz Product Line	(29,378)	0
Other Income	19,897	11,836
Net other expenses	(150,476)	(25,022)
Income before taxes	$ 1,471,934	$ 218,266

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 Sale of Bookendz Product Line

On October 28, 2005, the Company sold its Bookendz product line, related patent and remaining inventory. Upon the sale closing, the Company received gross $200,000 for the equipment and patent related to the product line. The Company paid selling expenses of $45,576. The Company received $211,582 for the inventory on November 28, 2005. The Company will also receive 10% of all future sales of product related to the patent from the buyer for a period of three years from the date of sale. These payments are to be paid quarterly, beginning in the first Quarter of 2006. These payments will be recognized as income as earned in future periods.

Impairment of Intangibles

3.53

SANMINA-SCI CORPORATION (SEP)

(In thousands)	2005	2004	2003
Net sales	$11,734,674	$12,204,607	$10,361,434
Cost of sales	11,093,631	11,588,518	9,898,964
Gross profit	641,043	616,089	462,470
Operating expenses			
Selling, general and administrative	350,474	334,986	306,734
Research and development	29,731	29,402	14,952
Amortization of intangible assets	8,685	8,547	6,596
Goodwill impairment	600,000	—	—
Write down of long-lived assets	—	—	95,600
Integration costs	1,609	4,203	10,720
Restructuring costs	116,444	133,250	105,744
Total operating expenses	1,106,943	510,388	540,346
Operating income (loss)	$ (465,900)	$ 105,701	$ (77,876)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangibles Assets

Costs in excess of the fair value of tangible and other intangible assets acquired and liabilities assumed in a purchase business combination are recorded as goodwill. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that companies no longer amortize goodwill, but instead test for impairment at least annually using a two-step approach. We evaluate goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill; to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

We have certain other intangible assets that are subject to amortization. Intangible assets consist primarily of intellectual property and customer relationships obtained in acquisitions. These assets are carried at cost less accumulated amortization. These intangible assets are amortized. over estimated useful lives ranging from five to eight years.

We review other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An asset is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset is expected to generate. If an asset or asset group is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. We assess the recoverability of the intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting our average cost of capital, or other appropriate methods of determining fair value.

Note 9 (In Part): Goodwill and Other Intangibles Assets

During the second quarter ended April 2, 2005, we recorded a goodwill impairment loss of $600 million for our domestic reporting unit. The factors that caused us to record a write-off of our deferred tax assets, which primarily related to U.S. operations coupled with the then-recent decline in the market price of our common stock, led us to record this goodwill impairment loss during our second fiscal quarter. In particular, the shift of operations from U.S. facilities and other facilities in high cost locations to facilities in lower-cost locations has resulted in restructuring charges and a decline in sales with respect to our U.S. operations. The fair market valuation of the reporting units was based on an income and market approach. As of the time we performed this analysis, there was no impairment of goodwill or long-lived assets associated with our international operations. In addition at july 1, of fiscal 2005, as well as at July 1, 2004 and 2003, we performed our annual impairment test pursuant to SFAS No. 142 and these tests did not identify any impairment losses.

Goodwill information for each reporting unit is as follows (in thousands):

	As of October 2, 2004	Additions to Goodwill	Goodwill Impairment	Adjustments to Goodwill	As of October 1, 2005
Reporting units					
Domestic	$1,221,406	$16,168	$(600,000)	$(17,493)	$ 620,081
International	1,033,573	38,112	—	(2,568)	1,069,117
Total	$2,254,979	$54,280	$(600,000)	$(20,061)	$1,689,198

Adjustments to goodwill primarily represent purchase price allocation adjustments related to prior year acquisitions which includes a reduction of certain tax accruals as a result of settlement with tax authorities. The additions to goodwill are primarily due to the Pentex acquisition and various other smaller acquisitions.

Litigation Settlement

3.54

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

(In millions)	2005	2004	2003
Gross sales	$17,253.5	$17,160.2	$16,320.2
Excise taxes	(2,217.8)	(2,226.0)	(2,173.5)
Net sales	15,035.7	14,934.2	14,146.7
Cost of sales	(9,579.5)	(8,982.5)	(8,449.1)
Gross Profit	5,456.2	5,951.7	5,697.6
Marketing, distribution and administrative expenses	(2,730.2)	(2,590.7)	(2,498.3)
Litigation settlement	(105.0)	—	—
Operating income	$ 2,621.0	$ 3,361.0	$ 3,199.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Contingencies

In the third quarter 2005, Anheuser-Busch and its outside insurance companies settled all claims associated with previously disclosed lawsuits filed by Maris Distributing Company. As a result of the settlement, the company paid $120 million, resulting in a $105 million pretax charge ($.12 per share) which is reported as a separate line item on a pretax basis in the income statement. The settlement is classified as a corporate item for segment reporting.

Minority Interest

3.55

LENNAR CORPORATION (NOV)

(Dollars in thousands)	2005	2004	2003
Revenues			
Homebuilding	$13,304,599	$10,000,632	$8,348,645
Financial services	562,372	500,336	556,581
Total revenues	13,866,971	10,500,968	8,905,226
Costs and expenses			
Homebuilding	11,177,807	8,601,338	7,288,356
Financial services	457,604	389,605	402,862
Corporate general and administrative	187,257	141,722	111,488
Total costs and expenses	11,822,668	9,132,665	7,802,706
Equity in earnings from unconsolidated entities	133,814	90,739	81,937
Management fees and other income, net	61,515	69,251	26,817
Minority interest expense, net	45,030	10,796	4,954
Loss on redemption of 9.95% senior notes	34,908	—	—
Earnings from continuing operations before provision for income taxes	$ 2,159,694	$ 1,517,497	$1,206,320

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and variable interest entities (see Note 17) in which Lennar Corporation is deemed the primary beneficiary (the "Company"). The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in variable interest entities in which the Company is not deemed to be the primary beneficiary are accounted for by the equity method. All significant intercompany transactions and balances have been eliminated in consolidation.

Minority Interest

The Company has consolidated certain joint ventures because the Company either was determined to be the primary beneficiary pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46(R) ("FIN 46(R)"), *Consolidation of Variable Interest Entities*, or has a controlling interest in these joint ventures. Therefore, the entities' financial statements are consolidated in the Company's financial statements and the partners' equity is recorded as minority interest. Also included in minority interest is the estimated fair market value of all third-party interests in variable interest entities. At November 30, 2005 and 2004, minority interest was $78.2 million and $42.7 million, respectively. Minority interest expense, net was $45.0 million, $10.8 million and $5.0 million, respectively, for the years ended November 30, 2005, 2004 and 2003.

17 (In Part): Consolidation of Variable Interest Entities

In December 2003, the FASB issued FIN 46(R), (which further clarified and amended FIN 46, *Consolidation of Variable Interest Entities*) which requires the consolidation of certain entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractural or other financial interests in the entity. Prior to the issuance of FIN 46(R), entities were generally consolidated by an enterprise when it had a controlling financial interest through ownership of a majority voting interest in the entity. FIN 46(R) applied immediately to variable interest entities created after January 31, 2003, and with respect to variable interest entities created before February 1, 2003, FIN 46(R) applied in the Company's second quarter ended May 31, 2004. The adoption of FIN 46(R) did not have a material impact on the Company's results of operations or cash flows.

Unconsolidated Entities

At November 30, 2005, the Company had investments in and advances to unconsolidated entities established to acquire and develop land for sale to the Company in connection with its homebuilding operations, for sale to third parties or for the construction of homes for sale to third-party homebuyers. The Company evaluated all agreements under FIN 46(R). During the year ended November 30, 2005, the Company consolidated entities under FIN 46(R) that at November 30, 2005 had total combined assets and liabilities of $144.0 million and $90.5 million, respectively.

At November 30, 2005, the Company's recorded investment in unconsolidated entities was $1.3 billion; however, the Company's estimated maximum exposure to loss with regard to unconsolidated entities was its recorded investments in these entities in addition to the exposure under the guarantees discussed in Note 6.

Change in Fair Value of Derivatives

3.56

ELECTRONIC ARTS INC. (MAR)

(In millions)	2005	2004	2003
Net revenue	$3,129	$2,957	$2,482
Cost of goods sold	1,197	1,103	1,073
Gross profit	1,932	1,854	1,409
Operating expenses			
Marketing and sales	391	370	332
General and administrative	221	185	131
Research and development	633	511	401
Amortization of intangibles	3	3	8
Acquired in-process technology	13	—	—
Restructuring charges	2	9	15
Asset impairment charges	—	—	66
Total operating expenses	1,263	1,078	953
Operating income	669	776	456
Interest and other income, net	56	21	5
Income before provision for income taxes and minority interest	$ 725	$ 797	$ 461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) Derivative Financial Instruments

We account for our derivative and hedging activities under SFAS No. 133. The assets or liabilities associated with our derivative instruments and hedging activities are recorded at fair value in other current assets or other current liabilities, respectively, in the Consolidated Balance Sheets. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

We transact business in various foreign currencies and have significant international sales and purchase transactions denominated in foreign currencies. As a result, we purchase foreign currency option contracts, generally with maturities of 15 months or less, to reduce the volatility of cash flows primarily related to revenue generated by our international subsidiaries. In addition, we utilize foreign exchange forward contracts to mitigate foreign currency exchange rate risk associated with foreign-currency-denominated assets and liabilities, primarily intercompany receivables and payables. The forward contracts generally have a contractual term of less than one month and are transacted near month-end. Therefore, the fair value of the forward contracts generally is not significant at each month-end. We do not use foreign currency option or foreign exchange forward contracts for speculative or trading purposes.

Cash Flow Hedging Activities

Our foreign currency option contracts are designated and qualify as cash flow hedges under SFAS No. 133. The effectiveness of the contracts that qualify as cash flow hedges is assessed monthly through an evaluation of critical terms and other criteria required by SFAS No. 133. The effective portion of gains or losses resulting from changes in fair value is initially reported as a component of accumulated other comprehensive income or (loss), net of any tax effects, in stockholders' equity and subsequently reclassified into net revenue in the period when the forecasted transaction actually occurs. The ineffective portion of gains or losses resulting from changes in fair value is reported in interest and other income, net in the Consolidated Statements of Operations. We expect the effective portion of hedges recognized in accumulated other comprehensive income or (loss) as of March 31, 2005, will be reclassified to net revenue during fiscal 2006. The amount of hedging ineffectiveness recognized in interest and other income, net was a loss of $1 million and $2 million for the years ended March 31, 2005 and 2004, respectively.

Balance Sheet Hedging Activities

Our foreign exchange forward contracts are not designated as hedging instruments under SFAS No. 133. Accordingly, any gains or losses resulting from changes in the fair value of the forward contracts are reported in interest and other income, net in the Consolidated Statements of Operations. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying foreign-currency-denominated assets and liabilities.

13) Interest and Other Income, Net

Interest and other income, net for the years ended March 31, 2005, 2004 and 2003 consisted of (in millions):

	2005	2004	2003
Interest income, net	$45	$29	$21
Net gain (loss) on foreign currency assets and liabilities	(23)	44	22
Net gain (loss) on foreign currency forward contracts	25	(50)	(30)
Ineffective portion of hedging	(1)	(2)	—
Impairment of investment in affiliates	—	—	(11)
Other income (expense), net	10	—	3
Interest and other income, net	$56	$21	$ 5

Environmental Clean-Up

3.57

POLYONE CORPORATION (DEC)

(In millions)	2005	2004	2003
Sales	$2,450.6	$2,267.7	$2,048.1
Operating costs and expenses			
Cost of sales	2,153.5	1,934.2	1,736.9
Selling and administrative	178.2	201.9	244.8
Depreciation and amortization	50.7	50.9	57.7
Employee separation and plant phaseout	5.5	(1.4)	35.7
Asset impairments	0.4	3.8	19.4
Environmental remediation at inactive sites	0.9	8.7	2.7
Loss on sale of assets	—	5.9	0.3
Income from equity affiliates and minority interest	(78.9)	(64.7)	(34.5)
Operating income (loss)	$ 140.3	$ 128.4	$ (14.9)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Costs

PolyOne expenses recurring costs that are associated with managing hazardous substances and pollution in ongoing operations on a current basis. Costs associated with the remediation of environmental contamination are accrued when it becomes probable that a liability has been incurred and PolyOne's proportionate share of the amount can be reasonably estimated.

Note N (In Part): Commitments

Environmental

PolyOne has been notified by federal and state environmental agencies and by private parties that it may be a potentially responsible party (PRP) in connection with the investigation and remediation of a number of environmental waste disposal sites. While government agencies frequently assert that PRPs are jointly and severally liable at these sites, in PolyOne's experience interim and final allocations of liability costs are generally made based on the relative contribution of waste. PolyOne believes that its potential continuing liability with respect to these sites will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. In addition, PolyOne initiates corrective and preventive environmental projects of its own to ensure safe and lawful activities at its operations. PolyOne believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition. Based on estimates prepared by its environmental engineers and consultants, PolyOne had accruals totaling $55.2 million at December 31, 2005 and $64.5 million at December 31, 2004 to cover probable future environmental expenditures relating to previously contaminated sites. The accrual represents PolyOne's best estimate of the remaining probable remediation costs, based upon information and technology that is currently available and PolyOne's view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that PolyOne could incur additional costs in excess of the accrued amount at December 31, 2005. However, such additional costs, if any, cannot be currently estimated. PolyOne's estimate of this liability may be revised as new regulations or technologies are developed or additional information is obtained. For 2005, 2004 and 2003, PolyOne incurred environmental expense of $0.2 million, $10.3 million and $4.1 million, respectively, of which $0.9 million in 2005, $8.7 million in 2004 and $2.7 million in 2003 relates to inactive or formerly owned sites. Environmental expense is presented net of insurance recoveries of $2.2 million in 2005, $1.8 million in 2004 and $0.1 million in 2003.

Equity in Losses of Investee

3.58

KNIGHT-RIDDER, INC. (DEC)

(In thousands)	2005	2004	2003
Operating revenue			
Advertising			
Retail	$1,097,197	$1,071,819	$1,059,867
National	382,585	390,812	379,596
Classified	904,847	856,453	811.002
Total	2,384,629	2,319,084	2,250.465
Circulation	528,755	536,069	551,437
Other	90,608	86,161	78,956
Total operating revenue	3,003,992	2,941,314	2,880,858
Operating costs			
Labor and employee benefits	1,240,270	1,193,914	1,163,640
Newsprint, ink and supplements	413,059	391,898	379,074
Other operating costs	759,032	715,388	697,467
Depreciation and amortization	98,110	99,779	111,263
Total operating costs	2,510,471	2,400,979	2,351,444
Operating income	493,521	540,335	529,414
Other income (expense)			
Interest expense, net of interest income	(97,372)	(54,367)	(70,546)
Interest expense capitalized	6,866	4,746	2,079
Interest expense, net	(90,506)	(49,621)	(68,467)
Equity in losses, net of earnings, of unconsolidated companies and joint ventures	(10,967)	(23,883)	(24,077)
Minority interest in earnings of consolidated subsidiaries	(8,708)	(9,911)	(10,391)
Other, net	920	(533)	(1,661)
Total other expense	(109,261)	(83,948)	(104,596)
Income from continuing operations before income taxes	$ 384,260	$ 456,387	$ 424,818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation (In Part)

Our basis of consolidation is to include in the consolidated financial statements all of our accounts and those of our more-than-50%-owned subsidiaries. All significant intercompany transactions and account balances have been eliminated.

We own a 75% equity interest in the Fort Wayne Newspapers Agency and consolidate the results of its operations. The minority shareholders' interest in the partners' income has been reflected as an expense in the Consolidated Statement of Income in the caption "Minority interest in earnings of consolidated subsidiaries." Also included in this caption is a contractual minority interest resulting from a joint operating agreement that runs through 2021 between The Miami Herald Media Co. and Cox Newspapers, Inc., covering the publication of The Miami Herald and The Miami News. The Miami News ceased publication in 1988.

Investments in entities in which we have an equity interest of at least 20% but not more than 50% are accounted for under the equity method. We also account for our 13.5% investment in Ponderay Newsprint Company (Ponderay) and 19.5% investment in Tribe Networks, Inc., (Tribe) under the equity method, since we exercise significant influence over the operating and fiscal policies of Ponderay and Tribe. We record our share of earnings or losses and increase or decrease the investment by the equivalent amount. Dividends are recorded as a reduction to our investment.

Note 4. Unconsolidated Companies and Joint Ventures

The caption "Equity in unconsolidated companies and joint ventures" in the Consolidated Balance Sheet represents our equity in the net assets of the Seattle Times and subsidiaries; Newspapers First, a company responsible for the sales and servicing of retail, national and classified advertising accounts for a group of newspapers; SP Newsprint and Ponderay, two newsprint mill partnerships; CareerBuilder, LLC (CareerBuilder), a company in the business of providing online recruitment and career development services; Classified Ventures, LLC (Classified Ventures), an online classified listings services; Knight Ridder/Tribune Information Services, Inc., a joint venture of Knight Ridder and Tribune, offers stories, graphics, illustrations, photos and paginated pages for print publishers and Web-ready content for online publishers; Tribe Networks, Inc., an online knowledge-sharing community; CityXpress, Corp., a company that provides online marketplaces, including event auctions, continuous business-to-consumer marketplaces, and ecommerce-enabled classifieds; ShopLocal, LLC, formerly CrossMedia Services, a provider of Web-based marketing solutions for national and local retailers; Wave South Florida, a company devoted to the recreational boating and water sport industry; TKG Internet Holdings II LLC (TKG Internet Holdings), which holds a 75% interest in Topix.net, a company that aggregates and categorizes online news.

Following is our ownership interest in unconsolidated companies and joint ventures as of December 25, 2005:

Company	% Ownership Interest
CareerBuilder, LLC	33.3
Classified Ventures, LLC	21.5
CityXpress Corp.	35.6
Knight Ridder/Tribune Information Services, Inc.	50.0
Newspapers First	22.0
Ponderay Newsprint Company	13.5
Seattle Times Company	
Voting stock	49.5
Nonvoting stock	65.0
ShopLocal, LLC	33.3
SP Newsprint Co.	33.3
TKG Internet Holdings II LLC	33.3
Tribe Networks, Inc.	19.5
Wave South Florida	40.0

Summary financial information for our unconsolidated companies, joint ventures and partnerships accounted for under the equity method is as follows (in thousands):

	2005	2004	2003
Current assets	$ 325,591	$ 337,946	$ 312,075
Property, plant and equipment, net, and other assets	1,405,752	1,705,488	1,666,533
Current liabilities	337,614	250,068	317,593
Long-term debt and other noncurrent liabilities	372,436	596,918	576,824
Revenue	1,757,898	1,759,494	1,500,202
Gross profit	967,491	965,634	839,451
Income from continuing operations	(894)	39,600	41,129
Our share of			
Net assets	353,514	343,471	295,240
Equity losses of unconsolidated companies and joint ventures	(10,967)	(23,883)	(24,077)
Dividends and cash distributions received	$ 3,670	$ 2,916	$ 3,125

The Seattle Times Company sold certain parcels of land for net proceeds of $29.9 million, on June 25, 2004. At that time, the Seattle Times used the proceeds to reduce its debt. The entire pre-tax gain of $24 million was deferred pending certain unresolved environmental contingencies. As a result of receiving a certification from the Washington State Department of Ecology, these contingencies were removed at the beginning of the fourth quarter of 2005. Knight Ridder, as a 49.5% owner of the Seattle Times, recorded in the fourth quarter of 2005 its pro-rata share of the gain for accounting purposes. We received no cash related to this transaction.

Sale of Receivables

3.59

TECH DATA CORPORATION (JAN)

(In thousands)	2006	2005	2004
Net sales	$20,482,851	$19,730,917	$17,358,525
Cost of products sold	19,460,332	18,667,184	16,414,773
Gross profit	1,022,519	1,063,733	943,752
Selling, general and administrative expenses	828,278	832,178	771,786
Restructuring charges	30,946	—	—
Special charges	—	—	3,065
Operating income	163,295	231,555	168,901
Interest expense	31,422	28,473	23,217
Discount on sale of accounts receivable	5,503	—	—
Interest income	(7,426)	(5,606)	(6,651)
Net foreign currency exchange loss (gain)	1,816	(2,959)	(1,893)
Income from continuing operations before income taxes	$ 131,980	$ 211,647	$ 154,228

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Accounts Receivable, Net

Trade Receivables Purchase Facility Agreements

During fiscal 2006, the Company entered into revolving trade receivables purchase facility agreements (the "Receivables Facilities") with third-party financial institutions to sell accounts receivable on a non-recourse basis: The Company uses the Receivables Facilities as a source of working capital funding. The Receivables Facilities limit the amount of purchased accounts receivable the financial institutions may hold to $346.0 million at January 31, 2006, based on currency exchange rates at that date. Under the Receivables Facilities, the Company may sell certain accounts receivable (the "Receivables") in exchange for cash less a discount based on LIBOR plus a margin. Such transactions have been accounted for as a true sale, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The Receivables Facilities, of which $200.0 million expires in May 2006 and $146.0 million does not have an expiration date, require that the Company continue to service, administer and collect the sold accounts receivable. During the year ended January 31, 2006, the Company received gross proceeds of $796.1 million from the sale of the Receivables and recognized related discounts totaling $5.5. million. The proceeds, net of the discount incurred, are reflected in the Consolidated Statement of Cash Flows in operating activities within cash received from customers and the change in accounts receivable.

Purchased R&D

3.60

BOSTON SCIENTIFIC CORPORATION (DEC)

(In millions)	2005	2004	2003
Net sales	$6,283	$5,624	$3,476
Cost of products sold	1,386	1,292	961
Gross profit	4,897	4,332	2,515
Selling, general and administrative expenses	1,814	1,742	1,171
Research and development expenses	680	569	452
Royalty expense	227	195	54
Amortization expense	152	112	89
Litigation-related charges	780	75	15
Purchased research and development	276	65	37
Total operating expenses	3,929	2,758	1,818
Operating income	$ 968	$1,574	$ 697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Valuation of Business Combinations

The Company records intangible assets acquired in recent business combinations under the purchase method of accounting. The Company accounts for acquisitions completed before July 1, 2001 in accordance with Accounting Principles Board (APB) Opinion No. 16, *Business Combinations* and accounts for acquisitions completed after June 30, 2001 in accordance with FASB Statement No. 141, *Business Combinations.* Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the dates of acquisition. The Company then allocates the purchase price in excess of net tangible assets acquired to identifiable intangible assets, including purchased research and development. The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management. The Company allocates any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

The valuation of purchased research and development represents the estimated fair value at the dates of acquisition related to in-process projects. The Company's purchased research and development represents the value of in-process projects that have not yet reached technological feasibility and have no alternative future uses as of the date of acquisition. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. The Company expenses the value attributable to these in-process projects at the time of the acquisition. If the projects are not successful or completed in a timely manner, the Company may not realize the financial benefits expected for these projects, or for the acquisitions as a whole. In addition, the Company records certain costs associated with its strategic alliances as purchased research and development.

The Company uses the income approach to determine the fair values of its purchased research and development. This approach determines fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. The Company bases its revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected product introductions by competitors. In arriving at the value of the in-process projects; the Company considers, among other factors, the in-process projects' stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. The Company bases the discount rate used to arrive at a present value as of the date of acquisition on the time value of money and medical technology investment risk factors. For the in-process projects the Company acquired in connection with its recent acquisitions, it used the following risk-adjusted discount rates to discount its projected cash flows: in 2005, 18 percent to 27 percent; in 2004, 18 percent to 27 percent; and in 2003, 24 percent. The Company believes that the estimated purchased research and development amounts so determined represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

Note D (In Part): Business Combinations

During 2005, the Company paid $178 million in cash to acquire TriVascular, Inc., CryoVascular Systems, Inc. and Rubicon Medical Corporation and paid $120 million in shares of the Company's common stock to acquire Advanced Stent Technologies, Inc. (AST). During 2004, the Company paid $804 million in cash to acquire Advanced Bionics Corporation and Precision Vascular Systems, Inc. (PVS). During 2003, the Company paid $13 million in cash to acquire InFlow Dynamics, Inc. These acquisitions were intended to strengthen the Company's leadership position in interventional medicine. The consolidated financial statements include the operating results for each acquired entity from its respective date of acquisition.

Purchased Research and Development

In 2005, the Company recorded $276 million of purchased research and development. The Company's 2005 purchased research and development consisted of: $130 million relating to the acquisition of TriVascular; $73 million relating to the acquisition of AST; $45 million relating to the acquisition of Rubicon; and $3 million relating to the acquisition of CryoVascular. In addition, the Company recorded $25 million of purchased research and development in conjunction with obtaining distribution rights for new brain monitoring technology that Aspect Medical Systems, one of the Company's strategic partners, is currently developing. This technology is designed to aid the diagnosis and treatment of depression, Alzheimer's disease and other neurological conditions.

The most significant 2005 purchased research and development projects included TriVascular's AAA stent-graft and AST's Petal™ bifurcation stent, which collectively represented 73 percent of the 2005 purchased research and development. TriVascular's AAA stent-graft design reduces the size of the stent-graft by replacing much of the metal stent assembly with a polymer that is injected into channels within the stent-graft during the procedure. During the fourth quarter of 2005, management decided to re-design certain aspects of the stent-graft to enhance patient safety and to improve product performance. The re-design will result in incremental costs and time to complete the project relative to those expected at the date of acquisition. The Company currently expects to launch the AAA stent-graft in the U.S. by 2011 and to incur approximately $200 million of research and development costs over the next five years to complete the project. The Company continues to assess the pace of development and its opportunities within this market, which may result in a delay in the timing of regulatory approval.

AST's Petal bifurcation stent is designed to expand into the side vessel when a single vessel branches into two vessels, permitting blood to flow into both branches of the bifurcation and providing support at the junction. The cost to complete the Petal bifurcation stent is estimated to be between $100 million and $125 million. As of the date the Company acquired AST, it expected the Petal bifurcation stent to be commercially available on a worldwide basis within six years in a drug-eluting configuration.

In 2004, the Company recorded $65 million of purchased research and development. The 2004 purchased research and development consisted primarily of $50 million relating to the acquisition of Advanced Bionics and $14 million relating to the acquisition of PVS. The most significant in-process projects acquired in connection with the Company's 2004 acquisitions included Advanced Bionics' bion microstimulator and drug delivery pump, which collectively represented 77 percent of the 2004 acquired in-process projects' value. The bion microstimulator is an implantable neurostimulation device designed to treat a variety of neurological conditions, including migraine headaches and urge incontinence. The cost to complete the bion microstimulator is estimated to be between $35 million and $45 million. The Company expects that the bion microstimulator will be commercially available within three years. The Advanced Bionics drug delivery pump is an implanted programmable device designed to treat chronic pain. The cost to complete the drug delivery pump is estimated to be between $30 million and $40 million. The Company continues to assess the pace of development and its opportunities for the drug delivery pump, which may result in a delay in the timing of regulatory approval.

In 2003, the Company recorded $37 million of purchased research and development. The 2003 purchased research and development consisted of $9 million relating to the acquisition of InFlow and $28 million relating primarily to certain acquisitions that the Company consummated in prior years. The in-process projects acquired in connection with the acquisition of InFlow were not significant to the Company's consolidated results. The purchased research and development associated with the prior years' acquisitions related primarily to the 2001 acquisition of EPI and resulted from consideration that was contingent at the date of acquisition, but earned during 2003.

In connection with the Company's 2002 acquisitions, it acquired Several in-process projects, including Smart's atherosclerosis stent. The atherosclerosis stent is a self-expanding nitinol stent designed to treat narrowing of the arteries around the brain. During 2005, the Company completed the atherosclerosis stent in-process project and received Humanitarian Device Exemption approval to begin selling this technology on a limited basis. The total cost for the Company to complete the project was approximately $10 million.

In connection with the Company's 2001 acquisitions, it acquired several significant in-process projects, including IVT's next-generation Cutting Balloon® device. The Cutting Balloon® device is a novel balloon angioplasty device with mounted scalpels that relieve stress in the artery, reducing the force necessary to expand the vessel. During 2005, the Company completed the Cutting Balloon in-process project and received FDA approval for this technology. The total cost for the Company to complete the project was approximately $7 million.

Merger Costs

3.61

CHEMTURA CORPORATION (DEC)

(In thousands of dollars)	2005	2004	2003
Net sales	$2,986,608	$2,285,231	$1,941,798
Costs and expenses			
Cost of products sold	2,203,115	1,759,900	1,480,401
Selling, general and administrative	330,354	270,615	260,198
Depreciation and amortization	157,822	118,181	107,831
Research and development	51,826	47,880	49,747
Equity income	(1,765)	(14,109)	(13,169)
Facility closures, severance and related costs	22,713	62,808	16,981
Antitrust costs	49,109	113,736	77,716
Merger costs	45,230	—	—
In-process research and development	73,300	—	—
Operating profit (loss)	$ 54,904	$ (73,780)	$ (37,907)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

On July 1, 2005, Crompton Corporation (Crompton) and Great Lakes Chemical Corporation (Great Lakes) combined their businesses by merging a wholly-owned subsidiary of Crompton with and into Great Lakes (the Merger). Under the terms of the merger agreement, Great Lakes shareholders received 2.2232 shares of the Company's common stock for each share of Great Lakes common stock and Great Lakes became a wholly-owned subsidiary of Crompton. The Company also changed its name to Chemtura Corporation.

At December 31, 2005, the purchase price allocation for a number of significant accounts, including property, plant and equipment, other intangibles, deferred taxes, pre-merger contingencies and cost in excess of acquired net assets, has not been finalized because the Company has not completed the accumulation and review of the Great Lakes information related to these matters.

Merger (In Part)

On March 9, 2005, the Company and Great Lakes announced the signing of a definitive merger agreement for an all-stock merger transaction. The transaction closed on July 1, 2005, and in accordance with the terms of the agreement, Great Lakes shareholders received 2.2232 shares of the Company's common stock for each share of Great Lakes common stock resulting in the issuance of approximately 116.1 million shares, which is net of 11.5 million treasury shares, of the Company's common stock with a fair value of approximately $1.85 billion. The fair value is based on a fair value per common share of $14.52, which represents the average of the closing prices on March 9, 2005, the date the terms of the agreement were agreed to and announced, and the two days before and after that date. The Company has also exchanged all of the outstanding vested and unvested Great Lakes stock options for 8.1 million of fully vested stock options of the Company. In addition, vesting was accelerated for substantially all of the outstanding unvested restricted share units of Great Lakes. As a result of the Merger, the Company obtained a 100% equity interest in Great Lakes.

The acquired assets and assumed liabilities have been recorded at their fair value and the excess cost of the acquired net assets over their fair value has been recorded as goodwill. The Company believes that this goodwill is attributable to an enhanced competitive position, greater stability through geographic and end-market diversification, a significantly strengthened balance sheet and credit profile, and a broader platform for future growth. The total purchase price has been allocated to the acquired net tangible and intangible assets and assumed liabilities based upon valuations and estimates of fair Value. The valuations and estimates utilized to determine the purchase price allocation are still subject to change. As of December 31, 2005, the purchase price allocation for a number of significant accounts, including property, plant and equipment, other intangibles, deferred taxes, pre-merger contingencies and cost in excess of acquired net assets has not been finalized because the Company has not fully completed the accumulation and review of the Great Lakes information related to these matters. The Company is also in the process of evaluating the deductibility of certain merger costs capitalized to goodwill associated with the Merger.

As a result of the Merger, the Company recorded charges for costs directly related to the Merger as a component of operating profit (loss). The related reserve activity is summarized as follows:

(In thousands)	Severance and Related Costs	Merger Integration Costs	Total
2005 merger costs	$ 9,477	$ 35,753	$ 45,230
Cash payments	(4,813)	(22,725)	(27,538)
Non-cash utilization	(403)	—	(403)
Balance at December 31, 2005	$ 4,261	$ 13,028	$ 17,289

Nonrecurring/Unusual Losses

3.62

MEDTRONIC, INC. (APR)

(Dollars in millions)	2005	2004	2003
Net sales	$10,054.6	$9,087.2	$ 7,665.2
Costs and expenses			
Cost of products sold	2,446.4	2,252.9	1,890.3
Research and development expense	951.3	851.5	749.4
Selling, general and administrative expense	3,213.6	2,801.4	2,371.9
Purchased in-process research and development (IPR&D)	—	41.1	114.2
Special charges	654.4	(4.8)	2.5
Other expense, net	290.5	351.0	188.4
Interest (income)/expense	(45.1)	(2.8)	7.2
Total costs and expenses	7,511.1	6,290.3	5,323.9
Earnings before income taxes	$ 2,543.5	$2,796.9	$ 2,341.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

3 (In Part): Special and IPR&D Charges

Special charges (such as certain litigation and restructuring charges) and IPR&D charges result from unique facts and circumstances that likely will not recur with similar materiality or impact on continuing operations. Special and IPR&D charges recorded during fiscal years 2005, 2004, and 2003 are as follows:

	2005	2004	2003
Special charges			
Litigation	$654.4	$ —	$ (8.0)
Asset write-downs	—	—	8.9
Restructuring and other related charges	—	—	16.1
Changes in restructuring obligation estimates	—	(4.8)	(14.5)
Total special charges	654.4	(4.8)	2.5
IPR&D	—	41.1	114.2
Total special and IPR&D charges, pre-tax	654.4	36.3	116.7
(Deduct)/add tax impact of special and IPR&D charges	(236.3)	1.8	4.2
Add tax impact for the repatriation of foreign earnings	48.5	—	—
Total special and IPR&D charges	$466.6	$38.1	$120.9

Special Charges

Fiscal Year 2005

In fiscal year 2005, the Company recorded pre-tax litigation charges of $654.4. The largest of the charges, in the amount of $550.0, occurred in the fourth quarter and relates to costs for the settlement of all outstanding litigation and disputes with Gary Michelson, M.D. and Karlin Technology, Inc. (Michelson). The agreement reached with Michelson requires a total cash payment of $1,350.0 for the settlement of all ongoing litigation and the purchase of a portfolio of more than 100 issued U.S. patents, over 110 pending U.S. patent applications and numerous foreign counterparts to these patents. The $550.0 was assigned to past damages in the case and the remaining $800.0 will be recorded as purchased intellectual property upon the completion of the acquisition in the first quarter of fiscal year 2006 (see Note 17). Also, in the fourth quarter of 2005, the Company recorded a charge of $80.1 resulting from a final arbitration award for breach of contract damages related to a March 2002 agreement between the Company and ETEX Corporation (ETEX). The $80.1 includes damages, interest, and partial legal fees equal to $63.6, in the aggregate, and the forgiveness of an existing $16.5 note owed to the Company by ETEX. In the third quarter of 2005, the Company recorded a charge of $24.3 related to the DePuy/AcroMed, Inc. (DePuy/AcroMed) litigation. The jury found that the thoracolumbar multiaxial screw design of Medtronic Sofamor Danek, Inc. (MSD), which MSD no longer sells in the U.S., infringes patents held by DePuy/AcroMed under the doctrine of equivalents. In February 2005, the Court entered judgment against MSD in the amount of $24.3, which included prejudgment interest. Given the judgment entered by the Court and the Company's conclusion that the likelihood of paying the damages was probable at that point in time, the Company recorded a $24.3 charge related to this judgment. Although the Company believes recording the charge was the appropriate action, MSD has appealed the jury's verdict and intends to continue to vigorously contest the charges. At April 29, 2005, unpaid legal special charges are recorded in *other accrued expenses* in the consolidated balance sheets.

On October 22, 2004, the Jobs Creation Act was signed into law by the President. The Jobs Creation Act allows U.S. corporations a one-time deduction of 85 percent of certain "cash dividends" received from controlled foreign corporations. The deduction is available to corporations during the tax year that included October 22, 2004 or the immediately subsequent tax year. According to the Jobs Creation Act, the amount of eligible dividends is limited to $500.0 or the amount described as permanently reinvested earnings outside the U.S. in a company's most recent audited financial statements filed with the SEC on or before June 30, 2003. Based on these requirements, the Company has $933.7 of cash held outside the U.S., which could be eligible for the special deduction in fiscal year 2006. The Company intends to repatriate the entire amount eligible under the Jobs Creation Act, or $933.7. The amounts repatriated will be used for qualified expenditures under the Jobs Creation Act. As of April 29, 2005, the Company has recorded a deferred tax liability of $48.5 associated with its planned repatriation of these funds and included that amount in the table above and in the consolidated statements of earnings in the *provision for income taxes.*

Fiscal Year 2004

In fiscal year 2004, the Company recorded a $4.8 reversal of a previously established reserve related to the Vascular facility consolidation initiatives, which started in the first quarter of fiscal year 2003. The $4.8 change in estimate is a result of the following favorable outcomes in the execution of these initiatives: a decrease of $2.4 as a result of selling or utilizing existing assets which were previously identified for impairment; a decrease of $1.8 related to subleasing a facility earlier than anticipated; and a decrease of $0.6 in severance payments related to employees identified for elimination who found positions elsewhere in the Company.

Fiscal Year 2003

In fiscal year 2003, the Company recorded a $15.0 litigation settlement and a $25.0 charge related to facility consolidation initiatives in the Vascular operating segment. The litigation charges were offset by a $23.0 reversal for a final adjustment to a previously recognized settlement with a competitor on the rapid exchange perfusion delivery system and the reversal of $14.5 of previously recognized restructuring charges.

The $25.0 Vascular facility consolidation initiative occurred during the first quarter of fiscal year 2003. The Company reorganized the Vascular research and development, clinical, regulatory and manufacturing functions, closed seven facilities in California and one in Florida, and identified 685 positions to be eliminated. In connection with this initiative, the Company recorded a $10.8 restructuring charge, an $8.9 asset write-down, and $5.3 of other restructuring-related charges. The $10.8 restructuring charge consisted of $4.6 for lease cancellations and $6.2 for severance costs. The $8.9 asset write-down related to assets that will no longer be utilized, including accelerated depreciation of assets held and used. The $5.3 of other restructuring-related charges related to incremental expenses incurred as a direct result of the Vascular restructuring initiative, primarily retention and productivity bonuses for services rendered by the employees prior to July 26, 2002, as well as equipment and facility moves. The other restructuring-related charges were incurred during the quarter the initiative was announced. The Vascular restructuring initiatives resulted in annualized operating savings between $35.0 and $40.0. Of the 685 positions identified for elimination, 629 had been eliminated as of April 30, 2004 and no further positions were eliminated under these initiatives. This charge was offset by a reversal of $14.5 of previously established restructuring reserves no longer considered necessary. The first reversal of $8.9, which included $1.7 of asset write-downs, related to restructuring initiatives from the fourth quarter of fiscal year 2001 and the first quarter of fiscal year 2002. The outcome of these initiatives was favorable compared to initial estimates for two reasons. First, several employees who were in positions identified for termination found other jobs within the Company; and second, two sales offices that were initially identified for closure ultimately did not close. The second reversal of $5.6 related to distributor termination costs accrued in connection with the merger of PercuSurge Inc. (PercuSurge). The outcome of the PercuSurge distributor terminations was favorable to original estimates as a result of anticipated contractual commitments that did not materialize. As of April 30, 2004 all reserves were utilized, as the initiatives have been completed.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.63 SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, states the disclosure requirements for pensions and other postretirement benefits. *SFAS No. 132* does not supersede SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments and for Termination Benefits*, or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, with respect to the measurement or recognition of pensions and other postretirement benefits. In December 2003, the FASB issued SFAS No. 132 (Revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits—Revised. SFAS No. 132 (Revised)* retains the disclosure requirements contained in *SFAS No. 132*, which it replaces. The revised Statement requires additional disclosures to those contained in the original *SFAS No. 132* about the assets, obligations, cash flows, investment strategy, and net periodic benefit cost of defined pension and postretirement plans. *SFAS No. 132 (Revised)* is effective for financial statements with fiscal years ending after December 15, 2003.

3.64 The disclosure requirements of *SFAS No. 132* include, but are not limited to, disclosing the actuarial assumption rates used in accounting for pensions and other postretirement benefits. *SFAS No. 132* also requires disclosure of the assumed health care cost trend rate for other postretirement benefits. In addition, *SFAS No. 132 (Revised)*, requires disclosure of the allocation by major category of plan assets. Tables 3-8, 3-9 and 3-10 show the actuarial assumption rates used by the survey companies in accounting for pension benefits. Table 3-11 shows the health care cost trend rate used by the survey companies in 2005 to account for other postretirement benefits. Table 3-12 shows the asset allocations in 2005 of the 411 survey companies that disclosed the plan asset allocation of their defined benefit pension plan.

3.65 In addition to standardizing disclosure requirements, *SFAS No. 132* suggests a parallel format for presenting information about pensions and other postretirement benefits. Examples of such presentations follow.

3.66

TABLE 3-8: ASSUMED DISCOUNT RATE

%	2005	2004	2003	2002
4.5 or less	10	7	4	2
5	29	10	7	—
5.5	182	42	11	5
6	185	339	145	24
6.5	13	28	210	240
7	1	4	46	127
7.5	—	—	—	18
8	—	—	—	1
8.5	—	—	—	—
9	—	—	—	—
9.5	—	—	—	—
10	—	—	—	—
10.5	—	—	—	—
11 or greater	—	—	—	—
Not disclosed	8	4	7	5
Companies Disclosing Defined Benefit Plans	**428**	**434**	**430**	**422**

3.67

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	2005	2004	2003	2002
4.5 or less	345	334	339	317
5	25	44	40	52
5.5	7	7	9	11
6	7	7	7	8
6.5	—	—	1	1
7	—	—	—	—
7.5	1	1	2	3
8	—	1	—	—
8.5	2	3	1	—
9	—	—	—	—
9.5	—	—	—	1
10	—	1	1	—
10.5	—	—	—	—
11 or greater	—	—	—	1
Not disclosed	41	36	30	28
Companies Disclosing Defined Benefit Plans	**428**	**434**	**430**	**422**

3.68

TABLE 3-10: EXPECTED RATE OF RETURN

%	2005	2004	2003	2002
4.5 or less	2	8	4	—
5	1	2	2	1
5.5	1	2	1	—
6	10	8	3	2
6.5	4	9	7	2
7	22	21	18	11
7.5	37	29	25	16
8	98	89	80	61
8.5	175	172	157	89
9	52	70	101	140
9.5	5	7	12	65
10	1	1	3	18
10.5	—	—	1	7
11 or greater	—	—	1	—
Not disclosed	20	16	15	10
Companies Disclosing Defined Benefit Plans	**428**	**434**	**430**	**422**

3.69

TABLE 3-11: HEALTH CARE COST TREND RATE—2005

%	All Participants	Participants Under Age 65	Participants Age 65 and Over
5.5 or less	10	—	—
6–6.5	4	—	1
7–7.5	9	1	1
8–8.5	33	4	2
9–9.5	87	6	2
10–10.5	119	11	5
11–11.5	32	—	7
12–12.5	10	—	2
13–13.5	1	—	—
14 or greater	2	—	—
Fixed amount (not subject to escalation)	3	—	2
Companies Disclosing Rate	**310**	**22**	**22**

3.70

TABLE 3-12: PLAN ASSET ALLOCATION—2005

	Asset Category				
%	Equity	Debt	Real Estate	Cash & Equivalents	Other
81–100	17	3	—	1	2
61–80	279	5	—	—	—
41–60	94	25	—	1	—
21–40	11	307	—	2	12
1–20	3	62	129	106	187
None	7	9	282	301	210
Companies Disclosing Asset Allocation	**411**	**411**	**411**	**411**	**411**

Defined Benefit Plans

3.71

THE BLACK & DECKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Postretirement Benefits

Pension plans, which cover substantially all of the Corporation's employees in North America, Europe, and the United Kingdom, consist primarily of non-contributory defined benefit plans. The defined benefit plans are funded in conformity with the funding requirements of applicable government regulations. Generally, benefits are based on age, years of service, and the level of compensation during the final years of employment. Prior service costs for defined benefit plans generally are amortized over the estimated remaining service periods of employees.

Certain employees are covered by defined contribution plans. The Corporation's contributions to these plans are based on a percentage of employee compensation or employee contributions. These plans are funded on a current basis.

In addition to pension benefits, certain postretirement medical, dental, and life insurance benefits are provided, principally to most United States employees. Retirees in other countries generally are covered by government-sponsored programs.

The Corporation uses the corridor approach in the valuation of defined benefit plans and other postretirement benefits. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plans, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. For other postretirement benefits, amortization occurs when the net gains and losses exceed 10% of the accumulated postretirement benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over the average remaining service period to retirement date of active plan participants or, for retired participants, the average remaining life expectancy.

Note 13. Postretirement Benefits

The following table sets forth the funded status of the defined benefit pension and postretirement plans, and amounts recognized in the Consolidated Balance Sheet, in millions of dollars. The Corporation uses a measurement date of September 30 for the majority of its defined benefit pension and postretirement plans. Defined postretirement benefits consist of several unfunded health care plans that provide certain post-retirement medical, dental, and life insurance benefits for most United States employees. The postretirement medical benefits are contributory and include certain cost-sharing features, such as deductibles and copayments.

	Pension Benefits Plans in the United States		Pension Benefits Plans Outside of the United States		Other Postretirement Benefits All Plans	
	2005	2004	2005	2004	2005	2004
Change in benefit obligation						
Benefit obligation at beginning of year	$ 994.8	$ 942.8	$ 733.1	$ 632.6	$ 144.6	$ 157.7
Service cost	23.5	17.7	13.7	13.7	.8	.7
Interest cost	57.9	54.7	37.5	35.5	8.4	8.8
Plan participants' contributions	—	—	1.6	1.8	6.9	6.8
Actuarial losses (gains)	23.0	(5.3)	74.9	8.4	(2.1)	(11.2)
Foreign currency exchange rate changes	—	—	(76.1)	55.6	.2	.7
Benefits paid	(62.5)	(61.2)	(29.8)	(27.5)	(21.9)	(21.8)
Acquisitions	—	45.2	—	10.8	—	2.9
Plan amendments	14.7	.6	2.2	2.2	(32.5)	—
Curtailments	(5.7)	.3	—	—	(.6)	—
Benefit obligation at end of year	1,045.7	994.8	757.1	733.1	103.8	144.6
Change in plan assets						
Fair value of plan assets at beginning of year	847.4	785.4	441.1	375.3	—	—
Actual return on plan assets	106.7	97.0	85.2	33.8	—	—
Expenses	(7.5)	(5.4)	(.4)	(.7)	—	—
Benefits paid	(62.5)	(61.2)	(29.4)	(26.8)	(21.9)	(21.8)
Employer contributions	3.9	3.6	15.4	14.0	15.0	15.0
Contributions by plan participants	—	—	1.6	1.8	6.9	6.8
Acquisitions	2.4	28.0	—	10.0	—	—
Effects of currency exchange rates	—	—	(45.1)	33.7	—	—
Fair value of plan assets at end of year	890.4	847.4	468.4	441.1	—	—
Funded status	(155.3)	(147.4)	(288.7)	(292.0)	(103.8)	(144.6)
Unrecognized net actuarial loss	385.4	411.3	276.1	291.9	20.8	24.4
Unrecognized prior service cost	17.7	4.1	11.9	12.3	(35.2)	(5.1)
Contributions subsequent to measurement date	—	—	3.6	3.8	—	—
Prepaid (accrued) benefit cost	$ 247.8	$ 268.0	$ 2.9	$ 16.0	$(118.2)	$(125.3)
Amounts recognized in the consolidated balance sheet						
Prepaid benefit cost	$ 44.3	$ 44.7	$ —	$ —	$ —	$ —
Accrued benefit cost	(106.0)	(102.6)	(212.8)	(224.4)	(118.2)	(125.3)
Intangible asset	7.3	3.9	12.0	12.5	—	—
Accumulated other comprehensive income	302.2	322.0	203.7	227.9	—	—
Net amount recognized	$ 247.8	$ 268.0	$ 2.9	$ 16.0	$(118.2)	$(125.3)
Weighted-average assumptions used to determine benefit obligations as of measurement date						
Discount rate	5.75%	6.00%	4.87%	5.43%	6.00%	6.25%
Rate of compensation increase	3.92%	4.10%	3.86%	3.81%	—	—

The allocation, by asset category, of assets of defined benefit pension plans in the United States at September 30, 2005 and 2004, respectively, were as follows:

Plan Assets at September 30	2005	2004
Equity securities	72%	69%
Fixed income securities	26%	28%
Alternative investments	2%	3%
	100%	100%

At September 30, 2005, the Corporation's targeted allocation, by asset category, of assets of defined benefit pension plans in the United States is equity securities 65% (comprised of 50% U.S. and 15% non-U.S. equities); fixed income securities—30%; and alternative investments—5%.

The allocation, by asset category, of assets of defined benefit pension plans outside of the United States at September 30, 2005 and 2004, respectively, were as follows:

Plan Assets at September 30	2005	2004
Equity securities	70%	67%
Fixed income securities	22%	25%
Real estate	7%	7%
Other	1%	1%
	100%	100%

At September 30, 2005, the Corporation's targeted allocation, by asset category, of assets of defined benefit pension plans outside of the United States is equity securities—68%; fixed income securities—25%; and real estate—7%.

To the extent that the actual allocation of plan assets differs from the targeted allocation by more than 5% for any category, plan assets are re-balanced within three months.

The Corporation establishes its estimated long-term return on plan assets considering various factors, which include the targeted asset allocation percentages, historic returns, and expected future returns. Specifically, the factors are considered in the fourth quarter of the year preceding the year for which those assumptions are applied.

The accumulated benefit obligation of certain plans in the United States and outside of the United States exceeded the fair value of plan assets. As required by accounting principles generally accepted in the United States, the Corporation reflected a minimum pension liability of approximately $505.9 million in the Consolidated Balance Sheet at December 31, 2005.

The accumulated benefit obligation related to all defined benefit pension plans and information related to unfunded and underfunded defined benefit pension plans at the end of each year, in millions of dollars, follows:

	Pension Benefits Plans in the United States		Pension Benefits Plans Outside of the United States	
	2005	2004	2005	2004
All defined benefit plans				
Accumulated benefit obligation	$ 963.3	$926.9	$684.2	$666.1
Unfunded defined benefit plans				
Projected benefit obligation	97.2	77.7	109.2	99.8
Accumulated benefit obligation	72.0	73.9	100.0	93.1
Defined benefit plans with an accumulated benefit obligation in excess of the fair value of plan assets				
Projected benefit obligation	1,003.0	953.7	757.1	733.1
Accumulated benefit obligation	920.7	885.8	684.2	666.1
Fair value of plan assets	818.8	778.0	468.4	441.1

The following table sets forth, in millions of dollars, benefit payments, which reflect expected future service, as appropriate, expected to be paid in the periods indicated.

	Pension Benefits Plans in the United States	Pension Benefits Plans Outside of the United States	Other Postretirement Benefits All Plans
2006	$ 63.1	$ 27.9	$10.7
2007	63.4	28.8	10.3
2008	66.0	29.7	10.0
2009	66.9	30.7	10.0
2010	66.8	31.7	9.9
2011–2015	367.9	173.4	46.8

The net periodic cost (benefit) related to the defined benefit pension plans included the following components, in millions of dollars:

	Pension Benefits Plans in the United States			Pension Benefits Plans Outside of the United States		
	2005	2004	2003	2005	2004	2003
Service cost	$24.4	$19.0	$ 16.5	$ 13.7	$ 13.7	$ 13.8
Interest cost	57.9	54.7	58.4	37.5	35.5	27.5
Expected return on plan assets	(80.6)	(82.4)	(87.1)	(34.9)	(35.1)	(31.8)
Amortization of the unrecognized transition obligation	—	—	—	.1	.1	.1
Amortization of prior service cost	1.2	1.2	1.2	1.4	1.4	1.4
Curtailment/settlement loss	—	.3	.9	—	—	.1
Amortization of net actuarial loss	21.3	15.8	7.6	12.0	10.2	4.7
Net periodic cost (benefit)	$24.2	$ 8.6	$ (2.5)	$ 29.8	$ 25.8	$ 15.8
Weighted-average assumptions used in determining net periodic (benefit) cost for year						
Discount rate	6.00%	6.00%	6.75%	5.44%	5.44%	5.50%
Expected return on plan assets	8.75%	8.75%	9.00%	7.50%	7.49%	7.75%
Rate of compensation increase	4.00%	4.00%	4.50%	3.85%	3.40%	3.90%

The net periodic cost related to the defined benefit postretirement plans included the following components, in millions of dollars:

	2005	2004	2003
Service cost	$ .8	$ .7	$ .9
Interest cost	8.4	8.8	10.7
Amortization of prior service cost	(1.7)	(1.9)	(2.2)
Amortization of net actuarial loss	.9	1.2	2.0
Curtailment gain	(.6)	—	—
Net periodic cost	$ 7.8	$ 8.8	$ 11.4
Weighted-average discount rate used in determining net periodic cost for year	6.25%	6.25%	7.00%

The health care cost trend rate used to determine the postretirement benefit obligation was 9.25% for 2006. This rate decreases gradually to an ultimate rate of 5.0% in 2011, and remains at that level thereafter. The trend rate is a significant factor in determining the amounts reported. A one-percentage-point change in these assumed health care cost trend rates would have the following effects, in millions of dollars:

One-Percentage-Point	Increase	(Decrease)
Effect on total of service and interest cost components	$ .5	$ (.5)
Effect on postretirement benefit obligation	6.0	(5.4)

During the fourth quarter of 2005, the Corporation adopted plan amendments for two of its non-qualified pension plans in the United States to permit certain participants to elect to receive their benefits under the plans in five equal annual installments or in the form of a lump sum payment, depending upon the age of the participant at retirement. Those amendments increased the Corporation's liability for pension benefits by approximately $13.1 million. This increase in the liability will be amortized as prior service cost over approximately 9 years.

During the fourth quarter of 2005, the Corporation adopted a plan amendment to eliminate the prescription drug benefit previously available to substantially all retirees under the Medicare supplemental plan, which was replaced by a prescription drug benefit under Medicare (Medicare Part D). That amendment reduced the Corporation's liability for postretirement health benefits by approximately $32.7 million. This reduction in the liability will be amortized as a prior service credit over approximately 10 years.

In 2006, the Corporation expects to make cash contributions of approximately $20.0 million to its defined benefit pension plans. The amounts principally represent contributions required by funding regulations or laws or those related to unfunded plans necessary to fund current benefits. In addition, the Corporation expects to continue to make contributions in 2006 sufficient to fund benefits paid under its other postretirement benefit plans during that year, net of contributions by plan participants. Such contributions totaled $15.0 million in 2005.

3.72

GANNETT CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Retirement Plans

Pension costs under the company's retirement plans are actuarially determined. The company's policy is to fund costs accrued under its qualified pension plans.

The company recognizes the cost of postretirement medical and life insurance benefits on an accrual basis over the working lives of employees expected to receive such benefits.

Note 7. Retirement Plans

The company and its subsidiaries have various retirement plans, including plans established under collective bargaining agreements, under which most full-time employees are covered. The Gannett Retirement Plan is the company's principal retirement plan and covers most U.S. employees of the company and its subsidiaries. Benefits under the Gannett Retirement Plan are based on years of service and final average pay. The tables below also include the assets and obligations of the Newsquest Retirement Plan in the U.K. and beginning on Aug. 1, 2005 (in connection with the Detroit newspaper transaction), certain collectively bargained plans. The company uses a Dec. 31 measurement date for its retirement plans.

The company's pension costs, which include costs for its qualified, non-qualified and union plans, for 2005, 2004 and 2003 are presented in the following table:

(In thousands of dollars)	2005	2004	2003
Service cost—benefits earned during the period	$ 96,288	$ 89,239	$ 77,378
Interest cost on benefit obligation	169,336	165,594	155,933
Expected return on plan assets	(227,322)	(212,063)	(170,099)
Amortization of transition asset	—	(10)	(68)
Amortization of prior service credit	(21,372)	(21,435)	(20,340)
Amortization of actuarial loss	57,892	55,765	72,026
Pension expense for company-sponsored retirement plans	74,822	77,090	114,830
Union and other pension cost	12,970	13,207	7,388
Pension cost	$ 87,792	$ 90,297	$ 122,218

The following table provides a reconciliation of benefit obligations (on a Projected Benefit Obligation measurement basis), plan assets and funded status of company-sponsored retirement plans, along with the related amounts that are recognized in the Consolidated Balance Sheets.

(In thousands of dollars)	2005	2004
Change in benefit obligation		
Net benefit obligation at beginning of year	$2,967,782	$2,737,741
Service cost	96,288	89,239
Interest cost	169,336	165,594
Plan participants' contributions	13,653	13,165
Plan amendments	—	91
Actuarial loss	75,242	86,195
Foreign currency translation	(55,891)	18,394
Gross benefits paid	(174,410)	(142,637)
Acquisitions	241,710	—
Net benefit obligation at end of year	$3,333,710	$2,967,782
Change in plan assets		
Fair value of plan assets at beginning of year	$2,672,665	$2,453,044
Actual return on plan assets	280,993	240,745
Plan participants' contributions	13,653	13,165
Employer contributions	52,536	92,363
Gross benefits paid	(174,410)	(142,637)
Foreign currency translation	(54,720)	15,985
Acquisitions	173,180	—
Fair value of plan assets at end of year	$2,963,897	$2,672,665
Funded status at end of year	$ (369,813)	$ (295,117)
Unrecognized net actuarial loss	1,035,962	1,048,832
Unrecognized prior service credit	(117,392)	(143,203)
Net amount recognized at end of year	$ 548,757	$ 610,512
Amounts recognized in consolidated balance sheets		
Prepaid benefit cost	$ 681,142	$ 730,257
Intangible assets	$ 2,348	$ 2,712
Accumulated other comprehensive loss related to minimum pension liability	$ 58,499	$ 32,040
Accrued benefit cost	$ (132,385)	$ (119,745)
Additional minimum liability	$ (60,847)	$ (34,752)

Pension Costs

The following assumptions were used to determine net pension costs.

	2005	2004	2003
Discount rate	5.75%	6.25%	6.75%
Expected return on plan assets	8.75%	8.75%	8.75%
Rate of compensation increase	4.00%	4.00%	4.00%

The expected return on asset assumption was determined based on the plan asset allocations, a review of historic capital market performance, historical plan performance and a forecast of expected future asset returns. The company lowered its expected return on asset assumption from 9.5% in 2002 to 8.75% in 2003 due to changes in the capital markets.

The company reviews this long-term assumption on a periodic basis. The company also lowered its discount rate from 6.75% at the end of 2002, to 6.25% at the end of 2003, and to 5.75% at the end of 2004.

Benefit Obligations and Funded Status

The accumulated benefit obligation for all of the company-sponsored retirement plans was $3.0 billion and $2.6 billion at the end of 2005 and 2004, respectively. On an Accumulated Benefit Obligation measurement basis, the Gannett Retirement Plan and the company's plans in the U.K. were more than fully funded at the end of 2005. The Projected Benefit Obligation exceeds the fair value of plan assets for all of the company-sponsored principal retirement plans. The following assumptions were used to determine the year-end benefit obligation.

	2005	2004
Discount rate	5.50–5.61%	5.75%
Rate of compensation increase	4.00%	4.00%

The following table presents information for those company retirement plans for which assets exceed accumulated benefits:

(In thousands of dollars)	2005	2004
Accumulated benefit obligation	$2,631,926	$2,455,221
Fair value of plan assets	2,833,374	2,672,665

The accumulated benefit obligation for the company's underfunded retirement plans exceeded plan assets by approximately $191 million and $154 million at Dec. 25, 2005, and Dec. 26, 2004, respectively.

The company did not contribute to the Gannett Retirement Plan in 2005; however, it contributed $50 million to the plan in February 2004. The company contributed $36 million to one of its collectively bargained plans in 2005. The company contributed approximately $10 million in 2005 and $37.2 million in 2004 to its U.K. retirement plan. At this time, the company does not plan to make any substantial contribution to the Gannett Retirement Plan or the U.K. retirement plan in 2006.

Employer contributions and gross benefits paid reflected in the above tables include approximately $5.8 million in 2005 and $5.1 million in 2004 paid from company assets.

Plan Assets

The fair value of plan assets was approximately $3.0 billion and $2.7 billion at the end of 2005 and 2004, respectively. The expected long-term rate of return on these assets was 8.75% for 2005, 2004 and 2003. The asset allocation for company-sponsored pension plans at the end of 2005 and 2004, and target allocations for 2006, by asset category, are presented in the table below.

	Target Allocation	Allocation of Plan Assets	
	2006	2005	2004
Equity securities	59%	63%	60%
Debt securities	30	30	32
Real estate	—	—	1
Other	11	7	7
Total	100%	100%	100%

The primary objective of company-sponsored retirement plans is to provide eligible employees with scheduled pension benefits: the "prudent man" guideline is followed with regard to the investment management of retirement plan assets. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal is to earn the highest possible total rate of return while minimizing risk. The principal means of reducing volatility and exercising prudent investment judgment is diversification by asset class and by investment manager; consequently, portfolios are constructed to attain prudent diversification in the total portfolio, each asset class, and within each individual investment manager's portfolio. Investment diversification is consistent with the intent to minimize the risk of large losses. All objectives are based upon an investment horizon spanning five years so that interim market fluctuations can be viewed with the appropriate perspective. The target asset allocation represents the long-term perspective. Retirement plan assets will be rebalanced at least annually to align them with the target asset allocations. Risk characteristics are measured and compared with an appropriate benchmark quarterly; periodic reviews are made of the investment objectives and the investment managers. The company's actual investment return on its Gannett Retirement Plan assets was 9.2% for 2005, 9.5% for 2004 and 27.6% for 2003.

Retirement plan assets include approximately 1.2 million shares of the company's common stock valued at approximately $75 million and $100 million at the end of 2005 and 2004, respectively. The plan received dividends of approximately $1.3 million on these shares in 2005.

Cash Flows

The company contributed $36 million to one of its collectively bargained plans and approximately $10 million to its U.K. retirement plan in 2005. The company contributed $50 million to the Gannett Retirement Plan and approximately $37.2 million to its U.K. retirement plan in 2004. The company estimates it will make the following benefit payments (from either retirement plan assets or directly from company funds), which reflect expected future service, as appropriate:

(In thousands of dollars)	
2006	$ 180,605
2007	190,277
2008	199,743
2009	212,013
2010	221,363
2011–2015	1,270,401

Note 8. Postretirement Benefits Other Than Pensions

The company provides health care and life insurance benefits to certain retired employees who meet age and service requirements. Most of the company's retirees contribute to the cost of these benefits and retiree contributions are increased as actual benefit costs increase. The cost of providing retiree health care and life insurance benefits is actuarially determined and accrued over the service period of the active employee group. The company's policy is to fund benefits as claims and premiums are paid. The company uses a Dec. 31 measurement date for these plans.

Postretirement benefit cost for health care and life insurance for 2005, 2004 and 2003 included the following components:

(In thousands of dollars)	2005	2004	2003
Service cost—benefits earned during the period	$ 2,612	$ 2,039	$ 3,132
Interest cost on net benefit obligation	14,859	15,561	19,756
Amortization of prior service credit	(10,818)	(12,461)	(11,839)
Amortization of actuarial loss	2,764	2,280	1,589
Net periodic postretirement benefit cost	$ 9,417	$ 7,419	$ 12,638
Curtailment gain	$(31,138)	$ —	$(30,710)

In 2005 the company recognized a curtailment gain of $31.1 million in connection with the elimination of postretirement medical and life insurance benefits for employees under 50 years of age on Jan. 1, 2006. In 2003, the company recognized a curtailment gain of $30.7 million upon the elimination of such benefits for employees under 40 years of age on Jan. 1, 2004, and subsequent new hires.

In December 2003, the United States enacted into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The company and its actuarial advisors determined that, based on regulatory guidance currently available, benefits provided by the company were at least actuarially equivalent to Medicare Part D, and, accordingly, the company expects to be entitled to the federal subsidy beginning in 2006.

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FAS 106-2"), which the company adopted in the third quarter of 2004. The provisions of the Act were adopted retroactively to the beginning of fiscal 2004, resulting in a $23.5 million reduction in the accumulated post retirement benefit obligation (APBO). This reduction in the APBO due to the Act is treated as an actuarial gain. The effect of applying FAS 106-2 reduced the company's net periodic postretirement benefit cost by approximately $2.5 million for 2005 and 2004.

The table below provides a reconciliation of benefit obligations and funded status of the company's postretirement benefit plans:

(In thousands of dollars)	2005	2004
Change in benefit obligation		
Net benefit obligation at beginning of year	$272,110	$280,896
Service cost	2,612	2,039
Interest cost	14,859	15,561
Plan participants' contributions	7,100	5,692
Plan amendment	(51,591)	—
Actuarial (gain) loss	14,807	(2,953)
Gross benefits paid	(32,865)	(29,125)
Acquisitions	43,981	—
Curtailments	(3,207)	—
Net benefit obligation at end of year	$267,806	$272,110
Change in plan assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	25,765	23,433
Plan participants' contributions	7,100	5,692
Gross benefits paid	(32,865)	(29,125)
Fair value of plan assets at end of year	$ —	$ —
Benefit obligation at end of year	$267,806	$272,110
Unrecognized net actuarial loss	(73,847)	(63,691)
Unrecognized prior service credit	123,832	114,197
Accrued postretirement benefit	$317,791	$322,616

Postretirement Benefit Costs

The following assumptions were used to determine postretirement benefit cost:

	2005	2004	2003
Discount rate	5.75%	6.25%	6.75%
Health care cost trend on coverage—pre 65	11.00%	12.00%	10.00%
Health care cost trend on coverage—post 65	11.00%	12.00%	10.00%
Ultimate trend rate	5.00%	5.00%	5.00%
Year that ultimate trend rate is reached	2009	2009	2008

Benefit Obligations and Funded Status

The following assumptions were used to determine the year-end benefit obligation:

	2005	2004
Discount rate	5.57%	5.75%
Health care cost trend rate assumed for next year	10.00%	11.00%
Health trend rate	5.00%	5.00%
Year that ultimate trend rate is reached	2011	2009

A 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a 1% increase in the health care cost trend rate used would result in increases of approximately $15 million in the 2005 postretirement benefit obligation and $1 million in the aggregate service and interest components of the 2005 expense. The effect of a 1% decrease in the health care cost trend rate used would result in decreases of approximately $13 million in the 2005 postretirement benefit obligation and $1 million in the aggregate service and interest components of the 2005 expense.

Cash Flows

The company expects to make the following benefit payments, which reflect expected future service, and to receive the following federal subsidy benefits as appropriate:

(In thousands of dollars)	Benefit Payments	Subsidy Benefits
2006	$ 33,085	$ 2,395
2007	34,363	2,501
2008	35,181	2,581
2009	36,018	2,663
2010	37,084	2,760
2011–2015	193,188	14,645

The amounts above include the participants' share of the benefit cost. The company's policy is to fund benefits as claims and premiums are paid.

3.73

R.R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Pension and Postretirement Plans

The Company records annual amounts relating to is pension and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications is generally recorded or amortized over future periods. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors.

Note 11 (In Part): Retirement Plans

The Company sponsors various funded and unfunded pension plans for most of its full-time employees in the United States, Canada and certain international locations. Benefits are generally based upon years of service and compensation. These plans are funded in conformity with the applicable government regulations. The United States pension plan of Moore Wallace acquired in the acquisition did not accrue benefits as the plan was frozen prior to the acquisition and continued with no further benefit accruals until January 1, 2005 when benefit accruals commenced again.

In addition to pension benefits, the Company provides certain healthcare and life insurance benefits for retired employees. Most of the Company's regular full-time U.S. employees become eligible for these benefits at or after reaching age 55 if working for the Company and having 10 years of continuous service. For employees who began employment with the Company prior to January 1, 2002, the Company subsidizes coverage and funds liabilities associated with these plans through a tax-exempt trust. The assets of the trust are invested in trust owned life insurance policies covering certain employees of the Company. The underlying assets of the policies are invested primarily in marketable equity, corporate fixed income and government securities. The Moore Wallace postretirement plan acquired in the acquisition provides postretirement health care and life insurance benefits to certain grandfathered United States employees and to all eligible Canadian employees.

The pension and postretirement obligations are measured as of September 30 for all years presented and are calculated using generally accepted actuarial methods. Actuarial gains and losses are amortized using the corridor method over the average remaining service life of its active employees.

The pension and postretirement benefit obligations as of September 30, 2005, reflect amendments which reduce future benefits under the plan provisions.

The components of the net periodic benefit expense (income) and total expense (income) are as follows:

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Service cost	$ 76.6	$ 61.0	$ 48.2	$ 11.4	$ 16.1	$ 12.1
Interest cost	129.9	126.8	106.5	30.6	33.6	20.0
Expected return on plan assets	(198.4)	(182.1)	(157.4)	(18.5)	(21.0)	(24.8)
Amortization of transition obligation	(10.2)	(11.0)	(10.9)	—	—	—
Amortization of prior service cost	(7.3)	4.0	4.0	(17.0)	(3.4)	(2.3)
Amortization of actuarial loss	10.4	8.4	4.1	4.2	1.9	0.2
Net periodic benefit expense (income)	1.0	7.1	(5.5)	10.7	27.2	5.2
Curtailments	—	—	—	—	—	1.2
Special termination benefit cost	—	—	3.3	—	—	—
Settlements	1.0	(0.1)	—	—	—	—
Total expense (income)	$ 2.0	$ 7.0	$ (2.2)	$ 10.7	$ 27.2	$ 6.4
Weighted average assumption used to calculate net periodic benefit expense (income)						
Discount rate	6.0%	5.9%	6.7%	6.0%	5.9%	6.8%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Expected return on plan assets	8.4%	8.2%	8.9%	8.0%	8.0%	8.5%

The following provides a reconciliation of the benefit obligation, plan assets and the funded status of the pension and postretirement plans as of December 31, 2005 and 2004:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Benefit obligation at beginning of year	$2,232.3	$1,824.1	$ 531.1	$ 328.5
Service cost	76.6	61.0	11.4	16.1
Interest cost	129.9	126.8	30.6	33.6
Plan participants' contributions	1.3	1.2	15.1	11.4
Acquisitions	14.5	450.5	—	312.0
Amendments	0.5	(147.6)	—	(109.9)
Actuarial loss (gain)	59.8	25.5	14.1	(6.1)
Curtailments and settlements	0.2	—	—	(1.5)
Foreign currency translation	(14.2)	35.7	0.9	1.9
Adjustment to conform measurement date(2)	—	(3.2)	—	(1.2)
Benefits paid	(130.6)	(141.7)	(61.6)	(53.7)
Benefit obligation at end of year(1)	$2,370.3	$2,232.3	$ 541.6	$ 531.1
Fair value of plan assets at beginning of year	$2,482.4	$1,731.1	$ 219.5	$ 213.1
Actual return on assets	388.4	313.6	29.9	37.1
Acquisitions	9.8	530.8	—	—
Employer contributions	18.2	25.9	17.8	11.6
Plan participants' contributions	1.3	1.2	15.1	11.4
Foreign currency translation	(13.4)	27.3	—	—
Adjustment to conform measurement date(2)	—	(5.8)	—	—
Benefits paid	(130.6)	(141.7)	(61.6)	(53.7)
Fair value of plan assets at end of year	2,756.1	2,482.4	220.7	219.5
Funded status	385.8	250.1	(320.9)	(311.6)
Unrecognized transition obligation	—	(10.2)	—	—
Unrecognized net actuarial loss	131.9	278.9	88.7	90.0
Unrecognized prior service cost (benefits)	(106.9)	(114.4)	(101.7)	(118.8)
Fourth quarter contribution	7.6	9.7	3.3	3.5
Net asset (liability) recognized on the consolidated balance sheet	$ 418.4	$ 414.1	$(330.6)	$(336.9)

(continued)

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Amounts recognized on the consolidated balance sheets consist of				
Prepaid benefit cost	$514.1	$498.3	$ —	$ —
Accrued benefit cost (included in other noncurrent liabilities)	(137.1)	(130.6)	—	—
Postretirement liability	—	—	(330.6)	(336.9)
Intangible asset	1.4	1.0	—	—
Deferred income taxes	16.3	18.2	—	—
Accumulated other comprehensive income	23.7	27.2	—	—
Net asset (liability) recognized on the consolidated balance sheet	$418.4	$414.1	$(330.6)	$(336.9)
Weighted average assumptions used to determine the benefit obligation at the measurement date				
Discount rate	5.6%	6.0%	5.7%	6.0%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%
Health care cost trend				
Current				
Pre-Age 65	—	—	10.2%	10.2%
Post-Age 65	—	—	11.9%	11.9%
Ultimate	—	—	6.0%	6.0%

(1) The accumulated benefit obligation for all defined benefit pension plans was $2,328.8 million and $2,206.9 million at September 30, 2005 and 2004, respectively.

(2) Adjustment to conform the measurement dates in the benefit plans acquired in the Moore Wallace acquisition to the Company's September 30 measurement date.

Summary of under-funded or non-funded pension benefit plans with projected benefit obligation in excess of plan assets as of December 31, 2005 and 2004:

	Pension Benefits	
	2005	2004
Projected benefit obligation	$431.4	$388.9
Fair value of plan assets	272.9	242.5

Summary of pension plans with accumulated benefit obligations in excess of plan assets:

	Pension Benefits	
	2005	2004
Accumulated benefit obligation	$400.0	$363.7
Fair value of plan assets	272.9	242.5

The current health care cost trend rate gradually declines through 2013 to the ultimate trend rate and remains level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Total postretirement service and interest cost components	$ 2.7	$ (2.5)
Postretirement benefit obligation	22.7	(20.8)

The allocation percentage of plan assets follows:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Equity	73%	81%	72%	77%
Fixed income securities	26%	15%	21%	22%
Cash and other	1%	4%	7%	1%
Total	100%	100%	100%	100%

The Company employs a total return investment approach for its pension and postretirement benefit plans whereby a mix of equities and fixed income investments are used to maximize the long-term return of pension and postretirement plan assets. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolios contain a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across geography and market capitalization through investments in U.S. large-capitalization stocks, U.S. small-capitalization stocks and international securities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

The expected long-term rate of return for plan assets is based upon many factors including asset allocations; historical asset returns; current and expected future market conditions, risk and active management premiums. The prospective target asset allocation percentage for both the pension and postretirement plans is approximately 75% for equity securities and approximately 25% for fixed income and other securities.

The Company determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond yields and matched-funding yield curve analysis as of the measurement date.

The Company also maintains several pension plans in international locations. The assets, liabilities and expense associated with these plans are not material to the Company's consolidated financial statements. The expected returns on plan assets and discount rates for these plans are determined based on each plan's investment approach, local interest rates, and plan participant profiles.

The Company expects to make cash contributions of approximately $16 million to its pension plans and approximately $17 million to its postretirement plans in 2006. These contributions are to both funded and unfunded plans and are net of participant contributions.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act includes a prescription drug benefit under Medicare Part D as well as a federal subsidy, beginning in 2006, to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent, as defined in the Act, to Medicare Part D. Two of the company's retiree health care plans are at least actuarially equivalent to Medicare Part D and eligible for the federal subsidy. Cash flow from the subsidy is expected to be approximately $4.6 million in 2006.

Benefit payments are expected to be paid as follows:

	Pension Benefits	Postretirement Benefits—Gross	Estimated Medicare Subsidy Payments
2006	$106.9	$ 38.6	$4.6
2007	109.0	39.4	1.5
2008	111.2	38.8	1.6
2009	114.0	38.3	1.6
2010	117.8	37.9	1.7
2011–2014	700.2	182.8	9.1

Defined Contribution Plans

3.74

CONOCOPHILLIPS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 (In Part): Employee Benefit Plans

Defined Contribution Plans

Most U.S. employees (excluding retail service station employees) are eligible to participate in the ConocoPhillips Savings Plan (CPSP). Employees can deposit up to 30 percent of their pay in the thrift feature of the CPSP to a choice of approximately 32 investment funds. ConocoPhillips matches $1 for each $1 deposited, up to 1.25 percent of pay. Company contributions charged to expense for the CPSP and predecessor plans, excluding the stock savings feature (discussed below), were $18 million in 2005, $17 million in 2004, and $19 million in 2003.

The stock savings feature of the CPSP is a leveraged employee stock ownership plan. Employees may elect to participate in the stock savings feature by contributing 1 percent of their salaries and receiving an allocation of shares of common stock proportionate to their contributions.

In 1990, the Long-Term Stock Savings Plan of Phillips Petroleum Company (now the stock savings feature of the CPSP) borrowed funds that were used to purchase previously unissued shares of company common stock. Since the company guarantees the CPSP's borrowings, the unpaid balance is reported as a liability of the company and unearned compensation is shown as a reduction of common stockholders' equity. Dividends on all shares are charged against retained earnings. The debt is serviced by the CPSP from company contributions and dividends received on certain shares of common stock held by the plan, including all unallocated shares. The shares held by the stock savings feature of the CPSP are released for allocation to participant accounts based on debt service payments on CPSP borrowings. In addition, during the period from 2006 through 2009, when no debt principal payments are scheduled to occur, the company has committed to make direct contributions of stock to the stock savings feature of the CPSP, or make prepayments on CPSP borrowings, to ensure a certain minimum level of stock allocation to participant accounts. The debt was refinanced during 2004; however, there was no change to the stock allocation schedule.

We recognize interest expense as incurred and compensation expense based on the fair market value of the stock contributed or on the cost of the unallocated shares released, using the shares-allocated method. We recognized total CPSP expense related to the stock savings feature of $127 million, $88 million and $76 million in 2005, 2004 and 2003, respectively, all of which was compensation expense. In 2005, 2004 and 2003, we made cash contributions to the CPSP of less than $1 million. In 2005, 2004 and 2003, we contributed 2,250,727 shares, 2,419,808 shares and 2,967,560 shares, respectively, of company common stock from the Compensation and Benefits Trust. The shares had a fair market value of $130 million, $99 million and $89 million, respectively. Dividends used to service debt were $32 million, $27 million, and $28 million in 2005, 2004 and 2003, respectively. These dividends reduced the amount of compensation expense recognized each period. Interest incurred on the CPSP debt in 2005, 2004 and 2003 was $9 million, $5 million and $5 million, respectively.

The total CPSP stock savings feature shares as of December 31 were:

	2005	2004*
Unallocated shares	11,843,383	13,039,268
Allocated shares	19,095,143	19,727,472
Total shares	30,938,526	32,766,740

* Reflects a two-for-one stock split effected as a 100 percent stock dividend on June 1, 2005.

The fair value of unallocated shares at December 31, 2005, and 2004, was $689 million and $566 million, respectively.

We have several defined contribution plans for our international employees, each with its own terms and eligibility depending on location. Total compensation expense recognized for these international plans was approximately $20 million in 2005 and 2004.

Supplemental Retirement Plans

3.75

BOWNE & CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 13 (In Part): Employee Benefit Plans

Pension Plans

The Company sponsors a defined benefit pension plan which covers certain United States employees not covered by union agreements. Benefits are based upon salary and years of service. The Company's policy is to contribute an amount necessary to meet the ERISA minimum funding requirements. This plan has been closed to new participants effective January 1, 2003. In addition, effective January 1, 2003, benefits for current participants in the plan are computed at a reduced accrual rate for credited service after January 1, 2003, except for certain employees who continue to accrue benefits under the pre-January 1, 2003 formula if they satisfy certain age and years of service requirements. The Company also has an unfunded supplemental executive retirement plan (SERP) for certain executive management employees. Employees covered by union agreements (approximately 2% of total Company employees as of December 31, 2005) are included in separate multi-employer pension plans to which the Company makes contributions. Plan benefit and net asset data for these multi-employer pension plans are not available. Also, certain non-union international employees are covered by other retirement plans.

The components of the net periodic benefit cost are as follows:

	Pension			SERP		
	2005	2004	2003	2005	2004	2003
Service cost	$ 6,361	$ 5,888	$ 6,017	$ 418	$ 370	$ 654
Interest cost	6,792	6,157	5,933	1,429	1,741	1,632
Expected return on plan assets	(7,315)	(5,708)	(4,076)	—	—	—
Amortization of transition (asset) liability	(321)	(321)	(321)	101	101	101
Amortization of prior service cost	318	318	318	1,541	1,511	1,350
Amortization of actuarial loss	508	258	1,070	873	825	425
Net periodic cost of defined benefit plans	6,343	6,592	8,941	4,362	4,548	4,162
Union plans	358	362	295	—	—	—
Other retirement plans	1,458	1,297	1,003	—	—	—
Total cost	$ 8,159	$ 8,251	$10,239	$4,362	$4,548	$4,162

The reconciliation of the beginning and ending balances in benefit obligations and fair value of plan assets, as well as the funded status of the Company's plans, is as follows:

	Pension Plan		SERP	
	2005	2004	2005	2004
Projected benefit obligation at beginning of year	$115,863	$109,325	$26,910	$ 28,103
Service cost	6,361	5,888	418	370
Interest cost	6,792	6,157	1,429	1,741
Amendments	—	—	236	1,132
Actuarial loss (gain)	5,721	(2,049)	454	2,434
Benefits paid	(7,693)	(3,458)	(6,399)	(6,870)
Projected benefit obligation at end of year	127,044	115,863	23,048	26,910
Fair value of plan assets at beginning of year	85,636	63,236	—	—
Actual return on plan assets	6,762	7,548	—	—
Other	—	58	—	—
Employer contributions	12,250	18,252	6,399	6,870
Benefits paid	(7,693)	(3,458)	(6,399)	(6,870)
Fair value of plan assets at end of year	96,955	85,636	—	—
Unfunded status	(30,089)	(30,227)	(23,048)	(26,910)
Unrecognized net transition (asset) obligation	(1,237)	(1,558)	132	233
Unrecognized prior service cost	2,646	2,965	5,081	6,387
Unrecognized net actuarial loss	22,784	17,016	8,247	8,666
Net accrued cost	$ (5,896)	$ (11,804)	$ (9,588)	$(11,624)

The accumulated benefit obligation for the Company's defined benefit pension plan was $107,280 and $97,812 at December 31, 2005 and 2004, respectively. The accumulated benefit obligation for the Company's SERP was $19,595 and $22,873 at December 31, 2005 and 2004, respectively.

Amounts recognized in the balance sheet consist of:

	Pension Plan		SERP	
	2005	2004	2005	2004
Accrued benefit liability	$(10,325)	$(12,176)	$(19,595)	$(22,873)
Intangible asset for minimum pension liability	2,646	372	5,213	6,620
Accumulated other comprehensive loss	1,097	—	2,948	2,870
Deferred income tax asset	686	—	1,846	1,759
Net amount recognized	$ (5,896)	$(11,804)	$ (9,588)	$(11,624)

The amounts of accrued benefit liabilities are included in current and long-term liabilities for employee compensation and benefits. At December 31, 2005 and 2004, the Company had an additional minimum pension liability of $14,436 and $11,621, respectively, related to its defined benefit plan and SERP, which represents the excess of unfunded accumulated benefit obligations over previously recorded pension cost liabilities. The Company also had a corresponding intangible asset of $7,859 and $6,992 at December 31, 2005 and 2004, respectively. The net charge to accumulated other comprehensive income in stockholders' equity as of December 31, 2005 was $4,045, which is net of a $2,532 deferred tax asset. The net charge to accumulated other comprehensive income in stockholders' equity as of December 31, 2004 was $2,870, which is net of a deferred tax asset of $1,759. The charges to other comprehensive income relating to the additional minimum pension liability adjustments were $1,175, net of a tax benefit of $773 in 2005 and $435, net of a $265 tax benefit, in 2004. The SERP contains covenants which prohibit retired participants from engaging in competition with the Company.

The weighted-average assumptions that were used to determine the Company's benefit obligations as of the measurement date (December 31) were as follows:

	Pension Plan			SERP		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75%	6.00%	6.25%	5.75%	6.00%	6.25%
Projected future salary increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

The weighted-average assumptions that were used to determine the Company's net periodic benefit cost were as follows:

	Pension Plan			SERP		
	2005	2004	2003	2005	2004	2003
Discount rate	6.0%	6.25%	6.5%	6.0%	6.25%	6.5%
Projected future salary increase	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Expected long-term rate of return on plan assets	8.5%	8.5%	8.5%	N/A	N/A	N/A

The expected rate of return on plan assets assumption is based on the long-term expected returns for the investment mix of assets currently in the portfolio. In setting this rate, management uses a building block approach. Historic real return trends for the various asset classes in the plan's portfolio are combined with anticipated future market conditions to estimate the real rate of return for each class. These rates are then adjusted for anticipated future inflation to determine estimated nominal rates of return for each class. The expected rate of return on plan assets is determined to be the weighted-average of the nominal returns based on the weightings of the classes within the total asset portfolio.

For 2005, 2004, and 2003 management maintained an 8.5% expected return, to reflect current market conditions.

The discount rate assumption is tied to a long-term high quality bond index and is therefore subject to annual fluctuations.

The Company expects the following benefit payments to be paid out of the plans for the years indicated. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31 and include estimated future employee service. Payments from the pension plan are made from plan assets, whereas payments from the SERP are made by the Company.

Year	Pension Plan	SERP
2006	$ 6,457	$8,263
2007	4,943	2,136
2008	5,469	1,339
2009	4,763	812
2010	7,683	555
2011–2015	50,728	3,983

Multiemployer Plans

3.76

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Employee Benefit Plans and Collective Bargaining Agreements

Employee Benefit Plans

Substantially all employees working over 20 hours per week are covered by retirement plans. The Company sponsors both defined benefit and defined contribution pension plans. Union employees participate in multi-employer retirement plans under collective bargaining agreements, unless the collective bargaining agreement provides for participation in Company-sponsored plans. The Company also offers health and life insurance to retirees under postretirement benefit plans, and short-term and long-term disability benefits to former and inactive employees prior to retirement under post employment benefit plans.

Multi-Employer Plans

The Company contributes to various multi-employer pension plans under industry-wide collective bargaining agreements, primarily for defined benefit pension plans. These plans generally provide retirement benefits to participants based on their service to contributing employers. The Company contributed $130, $115 and $92 to these plans in the years 2005, 2004 and 2003, respectively. Based on available information, the Company believes that some of the multi-employer plans to which it contributes are under-funded. Company contributions to these plans are likely to continue to increase in the near term. However, the amount of any increase or decrease in contributions will depend on a variety of factors, including the results of the Company's collective bargaining efforts, return on the assets held in the plans, actions taken by trustees who manage the plans and the potential payment of a withdrawal liability if the Company chooses to exit a market or another employer withdraws from a plan without provision for their share of pension liability. Many recently completed labor negotiations have positively affected the Company's future contributions to these plans.

The Company also makes payments to multi-employer health and welfare plans in amounts representing mandatory contributions which are based on reserve requirements set forth in the related collective bargaining agreements. Some of the collective bargaining agreements up for renewal in the next several years contain reserve requirements that may trigger unanticipated contributions resulting in increased health care expenses. If these health care provisions cannot be renegotiated in a manner that reduces the prospective health care cost as the Company intends, the Company's selling, general and administrative expenses could increase, possibly significantly, in the future. Total contributions to these plans were $483, $520 and $416 for 2005, 2004 and 2003, respectively.

Collective Bargaining Agreements

As of February 2, 2006, the Company employed approximately 234,000 associates, of which approximately 52% were covered by collective bargaining agreements, primarily with the United Food and Commercial Workers and International Brotherhood of Teamsters. Labor agreements covering approximately 7,000 associates expire during 2006.

Amendment of Plan

3.77

VERIZON COMMUNICATIONS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Other Strategic Actions

Facility and Employee-Related Items (In Part)

During 2005, we recorded a net pretax charge of $98 million ($59 million after-tax) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and includes the unamortized cost of prior pension enhancements of $441 million offset partially by a pretax curtailment gain of $343 million related to retiree medical benefits. In connection with this restructuring, management employees will no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006, after receiving an 18-month enhancement of the value of their pension and retiree medical subsidy, but will receive a higher savings plan matching contribution.

Note 15 (In Part): Employee Benefits

We maintain noncontributory defined benefit pension plans for many of our employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on the company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

In December 2005, we announced that Verizon management employees will no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees will receive an increased company match on their savings plan contributions.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

Obligations and Funded Status

	Pension		Health Care and Life	
(In millions)	2005	2004	2005	2004
Change in benefit obligation				
Beginning of year	$37,395	$40,968	$ 27,077	$ 24,581
Service cost	721	712	373	282
Interest cost	2,070	2,289	1,519	1,479
Plan amendments	181	(65)	59	248
Actuarial loss, net	390	2,467	520	2,017
Benefits paid	(2,977)	(2,884)	(1,706)	(1,532)
Termination benefits	11	4	1	2
Settlements	(35)	(6,105)	—	—
Acquisitions and divestitures, net	(194)	—	(34)	—
Other	(1)	9	—	—
End of year	37,561	37,395	27,809	27,077
Change in plan assets				
Beginning of year	39,106	42,776	4,549	4,467
Actual return on plan assets	4,246	4,874	348	471
Company contributions	852	443	1,085	1,143
Benefits paid	(2,977)	(2,884)	(1,706)	(1,532)
Settlements	(35)	(6,105)	—	—
Acquisitions and divestitures, net	(202)	2	—	—
End of year	40,990	39,106	4,276	4,549
Funded status				
End of year	3,429	1,711	(23,533)	(22,528)
Unrecognized				
Actuarial loss, net	4,761	5,486	7,585	7,335
Prior service cost	1,075	1,387	4,310	4,193
Transition obligation	1	1	16	18
Net amount recognized	$ 9,266	$ 8,585	$(11,622)	$(10,982)
Amounts recognized on the balance sheet				
Prepaid pension cost (in other assets)	$12,704	$12,302	$ —	$ —
Assets held for sale	—	1	—	—
Other assets	478	463	—	—
Employee benefit obligation	(5,473)	(5,774)	(11,622)	(10,953)
Liabilities related to assets held for sale	—	—	—	(29)
Minority interest	168	145	—	—
Accumulated other comprehensive loss	1,389	1,448	—	—
Net amount recognized	$ 9,266	$ 8,585	$(11,622)	$(10,982)

Changes in benefit obligations were caused by factors including changes in actuarial assumptions (see Assumptions below), curtailments and settlements.

In 2005 as a result of our announcement regarding management retiree benefits, we recorded pre-tax expense of $441 million for pension curtailments and pre-tax income of $343 million for retiree medical curtailments (see Note 4 for additional information).

Verizon's union contracts contain health care cost provisions that limit company payments toward health care costs to specific dollar amounts (known as caps). These caps pertain to both current and future retirees, and have a significant impact on the actuarial valuation of postretirement benefits. These caps have been included in union contracts for several years, but have exceeded the annual health care cost every year until 2003. During the negotiation of new collective bargaining agreements for union contracts covering 79,000 unionized employees in the second half of 2003, the date health care caps would become effective was extended and the dollar amounts of the caps were increased. In the fourth quarter of 2003, we began recording retiree health care costs as if there were no caps, in connection with the ratification of the union contracts.

Since the caps are an assumption included in the actuarial determination of Verizon's postretirement obligation, the effect of extending and increasing the caps increased the accumulated postretirement obligation in the fourth quarter of 2003 by $5,158 million.

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The accumulated benefit obligation for all defined benefit pension plans was $36,128 million and $35,389 million at December 31, 2005 and 2004, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

(Dollars in millions)	2005	2004
Projected benefit obligation	$13,100	$12,979
Accumulated benefit obligation	12,575	12,508
Fair value of plan assets	8,605	7,816

Net Periodic Cost

	Pension			Health Care and Life		
(In millions)	2005	2004	2003	2005	2004	2003
Service cost	$ 721	$ 712	$ 785	$ 373	$ 282	$ 176
Interest cost	2,070	2,289	2,436	1,519	1,479	1,203
Expected return on plan assets	(3,348)	(3,709)	(4,150)	(353)	(414)	(430)
Amortization of transition asset	—	(4)	(41)	2	2	2
Amortization of prior service cost	45	60	23	285	234	(9)
Actuarial loss (gain), net	146	57	(337)	278	187	130
Net periodic benefit (income) cost	(366)	(595)	(1,284)	2,104	1,770	1,072
Termination benefits	3	4	2,588	1	2	508
Termination benefits—Hawaii operations sold	8	—	—	—	—	—
Settlement loss	—	815	229	—	—	—
Settlement loss—Hawaii operations sold	80	—	—	—	—	—
Curtailment (gain) loss and other, net	441	1	65	(343)	2	(130)
Curtailment loss—Hawaii operations sold	6	—	—	—	—	—
Subtotal	538	820	2,882	(342)	4	378
Total cost	$ 172	$ 225	$ 1,598	$1,762	$ 1,774	$ 1,450

The termination benefits, settlement loss and curtailment loss amounts pertaining to the Hawaii operations sold were recorded in the consolidated statements of income in Sales of Businesses, Net.

Medicare Adjustment

3.78

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Pension, Other Postretirement Benefit and Savings Plans

We provide substantially all employees with pension benefits. The principal domestic hourly plan provides benefits based on length of service. The principal domestic plans covering salaried employees provide benefits based on final five-year average earnings formulas. Salaried employees making voluntary contributions to these plans receive higher benefits. Effective January 1, 2005, the U.S. salaried pension plan was closed to new participants and effective October 1, 2005, our UK pension plans were closed to new participants. Other pension plans provide benefits similar to the principal domestic plans as well as termination indemnity plans at certain non-U.S. subsidiaries.

We also provide substantially all domestic employees and employees at certain non-U.S. subsidiaries with health care and life insurance benefits upon retirement. Insurance companies provide life insurance and certain health care benefits through premiums based on expected benefits to be paid during the year. Substantial portions of the health care benefits for domestic retirees are not insured and are paid by us. Benefit payments are funded from operations.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") was signed into law. The Act provides plan sponsors a federal subsidy for certain qualifying prescription drug benefits covered under the sponsor's postretirement health care plans. On May 19, 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2), which requires measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit costs to reflect the effects of the Act in the first interim or annual period beginning after June 15, 2004. On January 21, 2005, final regulations under the Act were issued. Based on the clarifications provided in the final regulations, our total periodic postretirement cost was lowered by $64 million in 2005. This change increased pre-tax income (loss) by $53 million in 2005. The difference between the net periodic postretirement cost and pre-tax income (loss) amounts represents the portion of net periodic postretirement cost that is carried in inventory at December 31, 2005. The accumulated postretirement benefit obligation was reduced by $529 million. This reduction in the obligation is amortized as a reduction of expense over the average remaining service life of active employees.

Postretirement benefit cost follows:

(In millions)	With Medicare Subsidy 2005	Without Medicare Subsidy 2005	2004	2003
Service cost—benefits earned during the period	$ 23	$ 28	$ 25	$ 24
Interest cost on accumulated benefit obligation	149	178	188	174
Amortization of unrecognized:				
—net losses	10	41	35	32
—prior service cost	43	43	45	17
Net periodic postretirement cost	225	290	293	247
Curtailments/settlements	25	24	12	24
Special termination benefits	—	—	—	20
Total postretirement cost	$250	$314	$305	$291

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The following table presents estimated future benefit payments from the plans as of December 31, 2005. Benefit payments for other postretirement benefits are presented net of retiree contributions:

	Pension Plans		Other Benefits	
(In millions)	U.S.	Non-U.S.	Without Medicare Part D Subsidy	Medicare Part D Subsidy Receipts
2006	$ 332	$116	$ 272	$ (18)
2007	342	117	272	(22)
2008	352	120	270	(25)
2009	362	124	264	(28)
2010	383	128	258	(31)
2011–2015	2,072	727	1,181	(189)

POSTEMPLOYMENT BENEFITS

3.79 SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. *SFAS No. 112* does not require that the amount of postemployment benefits be disclosed. Accordingly, many of the survey companies make little or no disclosure about postemployment benefits.

3.80 An example of a disclosure for postemployment benefits follows.

3.81

NCR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Pension, Postretirement and Postemployment Benefits

NCR has significant pension, postretirement and postemployment benefit costs, which are developed from actuarial valuations. Actuarial assumptions are established to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions the Company makes about interest rates, expected investment return on plan assets, rate of increase in health care costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, NCR's actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop the Company's valuations. NCR generally reviews and updates these assumptions on an annual basis. NCR is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that NCR uses may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal-rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension, postretirement or postemployment benefits expense the Company has recorded or may record.

Note 9 (In Part): Employee Benefit Plans

Other Postemployment Benefits

NCR offers various postemployment benefits to involuntarily terminated and certain inactive employees after employment but before retirement. These benefits are paid in accordance with NCR's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, and continuation of health care benefits and life insurance coverage. NCR provides appropriate accruals for these postemployment benefits. These postemployment benefits are funded on a pay-as-you-go basis. The expense under these plans was approximately $84 million in 2005, $95 million in 2004 and $79 million in 2003. The accrued postemployment liability was $124 million at December 31, 2005 and $101 million at December 31, 2004.

EMPLOYEE COMPENSATORY PLANS

3.82 SFAS No. 123, *Share-Based Payment*, establishes accounting and reporting standards for stock-based compensation plans. As originally issued, *SFAS No. 123* encouraged entities to use a fair-value-based method in accounting for employee stock-based compensation plans but allowed the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees. SFAS No. 123*, as revised, eliminates for public entities intrinsic value method accounting for share-based payment transactions, thereby requiring that such transactions be accounted for using a fair-value-based method. Thus public entities are required to recognize the cost of employee services received in exchange for award of equity instruments based on the grant-date fair value of those awards. In addition, *SFAS No. 123 (Revised)* provides clarification and expanded guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods.

3.83 Table 3-13 lists the types of employee compensatory plans disclosed by the survey companies. Compensatory plans may consist of stock awards or cash payments. The "stock award" caption in Table 3-13 represents restricted stock awards, performance awards, and bonuses paid by issuing stock.

3.84 Examples of employee compensatory plan disclosures follow.

3.85

TABLE 3-13: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Stock options	589	587	590	587
Stock award	406	381	318	332
Savings/investment	357	379	358	339
Stock purchase	203	226	189	189
Deferred compensation	137	100	108	93
Employee stock ownership	92	92	93	93
Profit-sharing	54	66	81	80
Incentive compensation	46	74	66	63

Stock Option Plans

3.86

BECTON, DICKINSON AND COMPANY (SEP)

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

1 (In Part): Summary of Significant Accounting Policies

Share-Based Compensation

Effective October 1, 2004, the Company adopted SFAS No. 123 (revised 2004)—"Share-Based Payment" ("SFAS No. 123 (R)"). This statement requires compensation expense to be measured based on the estimated fair value of the share-based awards and recognized in income on a straight-line basis over the requisite service period, which is generally the vesting period. See Note 2 regarding the Company's adoption of SFAS No. 123(R).

Prior to October 1, 2004, the Company accounted for share-based compensation under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") using the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation expense for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the exercise price. The Company had not recognized any stock compensation expense under this method in 2004 and 2003, as the exercise price of stock options equaled the market value of the Company's stock on the date of grant.

2 (In Part): Accounting Changes

Share-Based Compensation

The Company adopted SFAS No. 123(R) effective October 1, 2004. This statement requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period. The Company elected the modified prospective method as prescribed in SFAS No. 123(R) and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of October 1, 2004. The Company granted stock options and restricted stock unit awards in November 2004 under the 2004 Employee and Director Equity-Based Compensation Plan (the "2004 Plan"), its new long-term incentive program. See Note 13 for further discussion.

Share-based compensation expense in 2005 reduced the Company's results of operations as follows:

	2005
Income from continuing operations Before income taxes	$70,199
Net income[(A)]	$50,258
Basic earnings per share[(A)]	$ 0.20
Diluted earnings per share[(A)]	$ 0.19

[(A)] Share-based compensation attributable to discontinued operations was not material.

Prior to October 1, 2004, the Company accounted for share-based employee compensation under the provisions of SFAS No. 123 using the intrinsic value method prescribed by APB No. 25 and related interpretations. Under the intrinsic value method, no compensation expense was recognized for stock options, as the exercise price of employee stock options equaled the market value of the Company's stock on the date of grant. The following pro-forma net income and earnings per share information has been determined as if the Company had accounted for its share-based compensation awards issued using the fair value method in 2004 and 2003.

	2004	2003
Net income, as reported	$467,402[(A)]	$547,056
Less share-based compensation expense, net of tax	$ 32,027	35,941
Pro-forma net income	$435,375	$511,115
Reported earnings per share		
Basic	$ 1.85	$ 2.14
Diluted	$ 1.77	$ 2.07
Pro-forma earnings per share		
Basic	$ 1.72	$ 2.00
Diluted	$ 1.66	$ 1.95

[(A)] Includes $2,466 of share-based compensation expense relating to restricted stock units granted in November 2003.

The pro-forma amounts and fair value of each option grant were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004 and 2003: risk-free interest rates of 3.85% and 3.66%, respectively; expected volatility of 32.5% and 33.2%, respectively; expected dividend yields of 1.16% and 1.21%, respectively; and expected lives of six years for each year presented. The Black-Scholes model is a trading pricing model that does not reflect either the non-traded nature of employee stock options or the limited transferability of such options. This model also does not consider restrictions on trading for all employees, including certain restrictions imposed on senior management of the Company. Therefore, if the Company had used an option pricing model other than Black-Scholes, pro-forma results different from those shown above may have been reported.

13 (In Part): Share-Based Compensation

The Company grants share-based awards under the 2004 Plan, which provides for long-term incentive compensation to employees and directors consisting of: stock options, performance-based stock awards, stock appreciation rights, restricted stock units and other stock awards. The Company believes such awards align the interest of its employees and directors with those of its shareholders and encourage employees and directors to act as equity owners of the Company. Prior to the adoption of the 2004 Plan, the Company had employees and director stock option plans, which were terminated with respect to future grants effective upon shareholder approval of the 2004 Plan in February 2004. In 2005 and 2004, the compensation expense for these plans charged to income was $70,199 and $2,466, respectively, and the associated income tax benefit recognized was $19,941 and $937, respectively. No compensation expense was charged to income in 2003.

Stock Options

All stock option grants are for a ten-year term. Stock options issued after November 2001 vest over a four-year period. Stock options issued prior to November 2001 vested over a three-year period. Beginning with the November 2004 (fiscal 2005) stock option grants, fair value was estimated on the date of grant using a lattice-based binomial option valuation model that uses the following weighted-average assumptions: risk-free interest rate of 3.93%; expected volatility of 29%; expected dividend yield of 1.28% and expected life of 6.5 years. Expected volatility is based upon historical volatility for the Company's common stock and other factors. The expected term of options granted is derived from the output of the model, using assumed exercise rates based on historical exercise and termination patterns, and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate used is based upon the published U.S. Treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield is based upon the most recently declared quarterly dividend as of the grant date.

The weighted average grant date fair value of stock options granted during the years 2005, 2004 and 2003 was $17.16, $13.25 and $10.20, respectively. Stock options granted in 2004 and 2003 were valued based on the grant date fair value of those awards, using the Black-Scholes option pricing model. See Note 2 for further discussion.

A summary of stock options outstanding as of September 30, 2005, and changes during the year then ended is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at October 1	26,926,805	$31.15		
Granted	1,808,715	$ 4.44		
Exercised	(4,607,210)	26.83		
Forfeited, canceled or expired	(400,386)	35.92		
Balance at September 30	23,727,924	$33.68	5.77	$444,811
Vested and expected to vest at September 30	22,898,297	$33.49	5.70	$433,730
Exercisable at September 30	15,431,655	$30.79	4.66	$334,002

Cash received from the exercising of stock options in 2005, 2004 and 2003 was $123,613, $173,883 and $86,364, respectively. The actual tax benefit realized for tax deductions from stock option exercises totaled $44,958, $52,131 and $29,969, respectively. The total intrinsic value of stock options exercised during the years 2005, 2004 and 2003 was $134,342, $157,293 and $91,276, respectively.

3.87

ECOLAB INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (Revised 2004). "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R eliminates accounting for share-based compensation transactions using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees," and requires instead that such transactions be accounted for using a fair-value based approach.

Effective October 1, 2005, the company early-adopted SFAS No. 123R under the modified retrospective application method. SFAS No. 123R requires the company to measure compensation expense for share-based awards at fair value at the date of grant and recognize compensation expense over the service period for awards expected to vest. As part of the transition to the new standard, all prior period financial statements have been restated to recognize share-based compensation expense historically reported in the notes to the consolidated financial statements.

The effect of the change on current year results and previously reported amounts is:

	Increase (Decrease)		
(Thousands, except per share)	2005	2004	2003
Income before income taxes	$(38,708)	$(44,232)	$(27,649)
Net income	(24,488)	(27,795)	(16,758)
Net income per common share			
Basic	(0.10)	(0.11)	(0.07)
Diluted	(0.10)	(0.10)	(0.07)
Cash provided by operating activities	(11,682)	(11,556)	(5,267)
Cash used for financing activities	11,682	11,556	5,267

The beginning balances for 2003 have been restated as follows to recognize compensation expense for fiscal years 1995 through 2002, previously reported in the notes to the consolidated financial statements:

(Thousands)	Other Liabilities (Non-Current)	Additional Paid-In Capital	Retained Earnings	Deferred Compensation
Previously reported as of December 31, 2002	$164,989	$386,208	$1,159,663	$(1,710)
Adjustment for change in accounting	(19,996)*	67,242	(48,956)	1,710
As adjusted	$144,993	$453,450	$1,110,707	$ —

* Non-current deferred tax liability

Effective with the company's adoption of SFAS No. 123R, new stock option grants to retirement eligible recipients will be attributed to expense using the non-substantive vesting method and expensed at the time recipients attain age 55 with at least 5 years of service. If the company had used the non-substantive vesting method during all periods, net income for 2005, 2004 and 2003 would have been increased by approximately $2.5 million, $5.2 million and $0.4 million, respectively. In addition, the company previously accounted for forfeitures when they occurred. Commencing at the date of adoption, the company includes a forfeiture estimate in the amount of compensation expense being recognized. This change from the company's historical practice of recognizing forfeitures as they occur did not result in the recognition of any cumulative adjustment to income. The company has used the actual tax effects of stock options and the transition guidance prescribed within SFAS No. 123R for establishing the pool of excess tax benefits (APIC pool).

New Accounting Pronouncements (In Part)

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) "Share-Based Payment" ("SFAS No. 123R"). The Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 107 (SAB 107) in March 2005 to assist preparers by simplifying some of the implementation challenges of SFAS No. 123R while enhancing the information investors receive. The FASB has also issued various Staff Positions clarifying certain provisions of the new accounting standard. SFAS No. 123R addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123R requires the company to expense share-based payment awards with compensation cost measured at the fair value of the award. In addition, SFAS No. 123R requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than an operating cash flow. Effective October 1, 2005, the company early-adopted SFAS No. 123R under the modified retrospective application method in transitioning to the new standard. This method permits the company to apply the new accounting requirements on a retroactive basis. All prior period financial statements have been restated to recognize share-based compensation expense historically reported in the notes to the consolidated financial statements.

9. Stock Incentive and Option Plans

The company's stock incentive and option plans provide for grants of stock options, stock awards and other incentives. Common shares available for grant as of December 31 were 12,748,989 for 2005, 4,216,012 for 2004 and 8,674,459 for 2003. Common shares available for grant reflect 12 million shares approved by shareholders during 2002 and an additional 12 million shares approved in 2005 for issuance under the plans.

Almost all of the awards granted are non-qualified stock options granted to employees that vest annually in equal amounts over a three-year service period. Options may be granted to purchase shares of the company's stock at not less than fair market value at the date of grant. These options generally expire within ten years from the grant date. The company recognizes compensation expense for these awards on a straight-line basis over the three-year vesting period. Upon adoption of SFAS No. 123R, new stock option grants to retirement eligible recipients will be attributed to expense using the non-substantive vesting method. A summary of stock option activity and average exercise prices is as follows:

	2005	2004	2003
Shares			
Granted	3,862,966	4,876,408	4,765,823
Exercised	(2,878,612)	(3,625,117)	(6,383,227)
Canceled	(148,568)	(386,512)	(379,634)
December 31:			
Outstanding	23,568,291	22,732,505	21,867,726
Exercisable	16,461,958	15,332,623	12,823,743
Average exercise price per share			
Granted	$ 33.93	$ 33.49	$ 27.18
Exercised	17.27	16.55	19.84
Canceled	29.03	24.81	21.87
December 31:			
Outstanding	26.61	24.20	20.87
Exercisable	$ 23.87	$ 21.31	$ 17.96

The total intrinsic value of options (the amount by which the stock price exceeded the exercise price of the option on the date of exercise) that were exercised during 2005, 2004 and 2003 was $45.3 million, $53.3 million and $36.4 million, respectively.

Information related to stock options outstanding and stock option exercisable as of December 31, 2005, is as follows:

OPTIONS OUTSTANDING

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$7.59–17.91*	1,094,939	2.0 years	$13.29
$18.96–19.92	4,957,960	5.1 years	19.22
$20.00–24.90*	4,629,462	6.7 years	24.03
$25.21–29.82*	4,843,29	8.0 years	27.42
$30.58–34.08*	4,672,276	9.7 years	33.82
$34.18–36.67	3,368,139	9.0 years	34.51
$37.07–93.42*	2,222	3.1 years	$53.36

* Includes 15,872 shares of Ecolab's common stock subject to stock options which Ecolab assumed in connection with the acquisition of Alcide Corporation in June 2004.

OPTIONS EXERCISABLE

Range of Exercise Prices	Options Exercisable	Weighted-Average Exercise Price
$7.59–17.91*	1,094,939	$13.29
$18.96–19.92	4,957,960	19.22
$20.00–24.90*	4,599,792	24.02
$25.21–29.82*	3,593,570	27.41
$30.58–34.08*	1,056,593	33.19
$34.18–36.67	1,156,882	34.52
$37.07–93.42*	2,222	$53.36

* Includes 15,872 shares of Ecolab's common stock subject to stock options which Ecolab assumed in connection with the acquisition of Alcide Corporation in June 2004.

The total aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2005 was $230.7 million and $206.2 million, respectively.

The lattice (binomial) option-pricing model was used to estimate the fair value of options at grant date beginning in the fourth quarter of 2005. The company's primary employee option grant occurs during the fourth quarter. Prior to adoption of SFAS No. 123R, the Black-Scholes option-pricing model was used. The weighted-average grant-date fair value of options granted in 2005, 2004 and 2003, and the significant assumptions used in determining the underlying fair value of each option grant, on the date of grant were as follows:

	2005	2004	2003
Weight-average grant-date fair value of options granted at market prices	$ 9.35	$ 9.45	$ 7.85
Assumptions			
Risk-free rate of return	4.4%	3.8%	3.5%
Expected life	6 years	6 years*	6 years
Expected volatility	24.3%	25.5%	26.8%
Expected dividend yield	1.2%	1.0%	1.2%

* During 2004 significant reload options were also granted with a weighted-average expected life of 3.5 years.

The risk-free rate of return is determined based on a yield curve of U.S. Treasury rates ranging from one month to ten years and a period commensurate with the expected life of the options granted. Expected volatility is established based on historical volatility of the company's stock price. The expected dividend yield is determined based on the company's annual dividend amount as a percentage of the average stock price at the time of the grant.

The expense associated with shares of restricted stock issued under the company's stock incentive plans is based on the market price of the company's stock at the date of grant and is amortized on a straight-line basis over the periods during which the restrictions lapse. The company currently has restricted stock outstanding that vests over periods between 12 and 36 months. Stock awards are not performance based and vest with continued employment. Stock awards are subject to forfeiture in the event of termination of employment. The company granted 11,479 shares in 2005, 13,550 shares in 2004 and 10,500 shares in 2003 under its restricted stock award program.

Total compensation expense related to share-based compensation plans was $39.1 million, ($24.7 million net of tax benefit) $44.7 million, ($28.1 million net of tax benefit) and $29.2 million ($17.7 million net of tax benefit) during 2005, 2004 and 2003, respectively.

A summary of non-vested stock options and stock award activity is as follows:

NON-VESTED STOCK OPTIONS AND STOCK AWARDS

	Stock Options	Weighted-Average Fair Value at Grant Date	Stock Awards	Weighted-Average Fair Value Grant Date
December 31, 2004	7,399,882	$ 8.79	62,300	$24.20
Granted	3,862,966	9.35	11,479	32.74
Vested/Earned	(4,028,267)	8.37	(51,604)	22.52
Forfeited/Cancelled	(128,248)	8.91	—	—
December 31, 2005	7,106,333	9.33	22,175	$32.53

As of December 31, 2005, there was $58.7 million of total measured but unrecognized compensation expense related to non-vested share-based compensation arrangements granted under our plans. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Total cash received from the exercise of share-based instruments in 2005 was approximately $49.7 million.

The company generally issues authorized but previously unissued shares to satisfy stock option exercises. The company has a policy of repurchasing shares on the open market to offset the dilutive effect of stock options.

3.88

GENUINE PARTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock Compensation

Effective January 1, 2003, the Company prospectively adopted the fair value method of accounting for stock compensation. The Company recognizes compensation expense based on the straight-line method. The adoption of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), had no significant impact on the Company's consolidated financial statements for the years ended December 31, 2005, 2004, and 2003.

Until January 1, 2003, the Company had elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related Interpretations in accounting for stock compensation. Under APB No. 25, no compensation expense is recognized if the exercise price of stock options equals the market price of the underlying stock on the date of grant. Note 5 contains a tabular presentation as if the Company had applied the alternative fair value accounting provided for under SFAS No. 123, to all stock options.

Recently Issued Accounting Pronouncements (In Part)

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company will adopt SFAS No. 123(R) on January 1, 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

- A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.
- A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company adopted the fair-value-based method of accounting for share-based payments effective January 1, 2003 using the prospective method described in FASB Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure an Amendment of FASB Statement No. 123*. Currently, the Company uses the Black-Scholes formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS No. 123(R) on January 1, 2006. Because SFAS No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because the Company adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under SFAS No. 123 will be recognized under SFAS No. 123(R).

However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 5 to our consolidated financial statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption as more fully disclosed in Note 5 of the notes to the consolidated financial statements.

5. Stock Options and Restricted Stock Awards

In 1999, the Company authorized the grant of options of up to 9,000,000 shares of common stock. In accordance with stock option plans approved by shareholders, options are granted to key personnel for the purchase of the Company's stock at prices not less than the fair market value of the shares on the dates of grant. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, as amended, determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005, 2004 and 2003, respectively: risk-free interest rates of 4.1%, 4.0%, and 4.0%; dividend yield of 3.2%, 3.7%, and 3.6%; annual volatility factor of the expected market price of the Company's common stock of 0.23, 0.23, and 0.25; an expected life of the options of 6, 8, and 8 years; and turnover of 4.0 to 4.4% based on the historical pattern of existing grants.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures under SFAS No. 123, as amended by SFAS No. 148, the estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net income and income per share if the fair value based method had been applied to all outstanding and unvested awards in each period:

(In thousands, except per share amounts)	2005	2004	2003
Net income, as reported	$437,434	$395,552	$334,101
Add: Stock-based employee compensation expense related to option grants after January 1, 2003 included in reported net income, net of related tax effects	4,247	1,566	13
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,225)	(5,324)	(5,688)
Pro forma net income	$435,456	$391,794	$328,426
Income per share			
Basic—as reported	$ 2.51	$ 2.26	$ 1.92
Basic—pro forma	$ 2.50	$ 2.24	$ 1.89
Diluted—as reported	$ 2.50	$ 2.25	$ 1.91
Diluted—pro forma	$ 2.49	$ 2.23	$ 1.88

A summary of the Company's stock option activity and related information is as follows:

	2005		2004		2003	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	5,759	$ 31	6,913	$30	7,590	$29
Granted[(1)]	1,260	44	1,270	37	20	32
Exercised	(1,246)	28	(2,096)	29	(500)	23
Forfeited	(184)	29	(328)	32	(197)	31
Outstanding at end of year	5,589	$ 34	5,759	$31	6,913	$30
Exercisable at end of year	3,216	$ 32	3,092	$30	4,171	$29
Weighted-average fair value of options granted during the year	$ 8.58		$ 6.94		$ 6.92	
Shares available for future grants	1,547		2,689		3,631	

(1) Total includes 91,000 and 124,000 *Restricted Stock Units* (RSUS) granted in 2005 and 2004, respectively. The weighted average exercise price excludes RSUS.

Exercise prices for options outstanding as of December 31, 2005, ranged from approximately $21 to $37, except for 12,000 options granted in connection with a 1998 acquisition for which the exercise price is approximately $18. The weighted-average remaining contractual life of options outstanding is approximately 6.5 years.

In 2004, the Company granted approximately 1,146,000 *Stock Appreciation Rights* (SARS) and 124,000 *Restricted Stock Units* (RSUS). In 2005, the Company granted approximately 1,169,000 *Stock Appreciation Rights* (SARS) and 91,000 *Restricted Stock Units* (RSUS). SARS represent a right to receive the excess, if any, of the fair market value of one share of common stock on the date of exercise over the grant price. RSUS represent a contingent right to receive one share of the Company's common stock at a future date provided certain pre-tax profit targets are achieved.

Stock Award Plans

3.89

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Stock Option and Bonus Plans

On May 2, 2002, shareholders approved the 2002 Long-Term Incentive Compensation Plan. The plan provides for the grant to eligible employees and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance units and other share-based awards. An aggregate of 6,000,000 shares of common stock have been reserved for issuance under the plan, of which no more than 500,000 shares may be issued in connection with awards other than options and SARs. All terms and conditions of each grant have been set on the date of grant, including the grant price of options which is based on the fair market value on the day of grant. No grants may be made under the plan after March 7, 2012.

Options under all plans become exercisable in four installments beginning after one year, and no options may be exercised after 10 years from the date of grant. The Company amortizes the pro forma expense using the graded expense attribution method over four years. However, if an employee is eligible to retire, the pro forma expense is recognized on the date of the grant.

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Stock option transactions under all plans are as follows:

	2005		2004		2003	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	10,738, 154	$22.15	11,013,511	$20.98	11,520,857	$20.34
Granted	1,138,028	$29.96	1,119,856	$28.82	1,351,892	$24.28
Forfeited/expired	(116,516)	$20.79	(120,510)	$16.67	(111,459)	$19.39
Exercised	(1,081,605)	$21.76	(1,274,703)	$18.42	(1,747,779)	$19.36
Outstanding at end of year	10,678,061	$23.04	10,738,154	$22.15	11,013,511	$20.98
Exercisable at end of year	7,841,136	$21.27	7,677,476	$20.50	7,411,637	$19.57
Available for future grants	5,219,033		6,481,495		7,579,411	

The following table summarizes information about fixed-price options outstanding at December 31, 2005:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Number Outstanding at 12/31/05	Weighted-Average Exercise Price	Number Exercisable at 12/31/05	Weighted-Average Exercise Price
$18.56–23.88	1–2	1,467,454	$19.49	1,467,454	$19.49
17.34–21.69	3–4	2,386,034	18.72	2,386,034	18.72
16.84–26.90	5–6	2,026,190	21.17	2,026,190	21.17
20.47–29.99	7–8	2,571,344	25.04	1,659,883	25.23
27.29–30.09	9–10	2,227,039	29.40	301,575	28.82
		10,678,061	23.04	7,841,136	21.27

The Company's Key Employee Stock Bonus Plan, as amended (the Bonus Plan) provides for the award of up to 15,187,500 common shares to key employees as compensation for future services, not exceeding 1,518,750 shares in any year (plus any canceled awards or shares available for award but not previously awarded). The Bonus Plan terminates on June 30, 2006. Shares awarded vest in five annual installments, provided the recipient is still employed by the Company on the vesting date. Compensation expense is measured on the date the award is granted and is amortized on a straight-line basis over five years. Shares awarded are considered issued and outstanding at the date of grant and are included in shares outstanding for purposes of computing diluted earnings per share. Employees have both dividend and voting rights on all unvested shares. In 2005, 2004 and 2003, the Company granted 118,620; 107,260 and 149,905 shares to key employees at a fair value of $30.09, $28.64 and $20.47, respectively, per share. Unvested shares were 415,255; 490,894 and 596,670 at December 31, 2005, 2004 and 2003, respectively. Shares available for grant under this plan are 1,124,215 at December 31, 2005.

Compensation expense relating to stock awards was $4.4 million in 2005, $5.2 million in 2004 and $4.7 million in 2003.

The Company has certain deferred compensation arrangements where shares earned under the Engelhard stock bonus plan are deferred and placed in a "Rabbi Trust." Shares held in the trust are recorded as treasury stock with the corresponding liability recorded as a credit within shareholders' equity. At December 31, 2005 and 2004, the Rabbi Trust held 519,939 and 513,518 shares, respectively, of Engelhard Corporation Common Stock. The value of the Rabbi Trust at historical cost was $12.8 million and $12.2 million at December 31, 2005 and 2004, respectively.

3.90

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Incentive Plans

Occidental has established several shareholder-approved stock-based incentive plans for certain employees (Plans) that are more fully described in Note 12. Beginning July 1, 2005, Occidental accounted for those Plans under SFAS No. 123R, "Share Based Payments." Prior to July 1, 2005, Occidental applied the APB Opinion No. 25 intrinsic value accounting method for its stock-based incentive plans. A summary of Occidental's accounting policy under each method follows below.

SFAS No. 123R

For restricted stock units (RSUs), compensation expense is measured on the grant date using the quoted market price of Occidental's common stock. For stock options (Options) and performance stock awards (PSAs), compensation expense is measured on the grant date using valuation models. Compensation expense for RSUs, Options and PSAs, is recognized on a straight-line basis over the requisite service periods, which is generally over the awards' respective vesting periods. For the PSAs, every quarter until vesting, the cash settled portion is revalued using valuation models and the stock settled portion is adjusted for any change in the number of shares expected to be issued based on the performance criteria. Any change in fair value is recognized as compensation expense. For stock appreciation rights (SARs), compensation expense is initially measured on the grant date using a valuation model. For cash settled SARs, compensation expense is recorded on the accelerated amortization method over the vesting period and changes in the fair value between the date of grant and through when the cash-settled SARs are exercised are recognized as compensation expense.

Note 4 (In Part): Accounting Changes

Recently Adopted Accounting Changes (In Part)

SFAS No. 123R

On July 1, 2005, Occidental early adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payments", under the modified prospective transition method. Since most of Occidental's existing stock-based compensation was already being recorded in the income statement, Occidental decided to early adopt SFAS 123R, so that the remaining awards would be accounted for in a similar manner. Prior to July 1, 2005, Occidental applied the Accounting Principles Board (APB) Opinion No. 25 intrinsic value accounting method for its stock incentive plans. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after July 1, 2005. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in compensation expense over the remaining requisite service period. Results from prior periods have not been restated. As a result of adopting this statement in the third quarter of 2005, Occidental recorded a $3 million after-tax credit as a cumulative effect of a change in accounting principles. See Note 12 for more information.

Note 12 (In Part): Stock-Based Incentive Plans

Occidental has established several Plans that provide for stock-based awards in the form of Options, restricted stock, RSUs, stock bonuses, SARs, PSAs and dividend equivalents. These awards are granted under the 1995 Incentive Stock Plan (1995 ISP), 2001 Incentive Compensation Plan (2001 ICP) and the 2005 Long-Term Incentive Plans (2005 LTIP). No further awards will be granted under the 1995 ISP and 2001 ICP plans; however, certain 1995 ISP and 2001 ICP award grants were outstanding at December 31, 2005. An aggregate of 17 million shares of Occidental common stock are reserved for issuance under the 2005 LTIP and at December 31, 2005, approximately 14 million shares of Occidental common stock were available for future awards. Occidental also has a 1996 Restricted Stock Plan for Non-Employee Directors (1996 DRSP), under which non-employee directors received awards of restricted stock as additional compensation for their services as members of the Board of Directors. No further awards will be granted under the 1996 DRSP; however, certain 1996 award grants were outstanding at December 31, 2005. All future non-employee director awards will be granted under the 2005 LTIP.

Adoption of SFAS No. 123R

As discussed in Note 1, on July 1, 2005, Occidental changed its method of accounting for stock-based compensation from the APB Opinion No. 25 intrinsic value accounting method to the fair value recognition provisions of SFAS No. 123R. Prior to July 1, 2005, Occidental had already been expensing its SARs, RSUs and PSAs. On July 1, 2005, Occidental began expensing its Options and recording compensation expense for all its other stock-based incentive awards using fair value amounts in accordance with SFAS No. 123R.

The table below summarizes certain stock-based incentive amounts for the year (all amounts in millions):

	2005
Compensation expense	$186
Income tax benefit recognized in the income statement	68
Intrinsic value of options and stock settled SAR exercises	217
Liabilities paid[(a)]	11
Fair value of RSUs and PSAs vested during the year[(b)]	54

(a) Includes liabilities paid under the cash-settled SARs.
(b) As measured on the grant date for RSUs and the stock settled portion of PSAs.

As of December 31, 2005, there was $195 million of pre-tax unrecognized compensation expense related to all unvested stock-based incentive award grants. This expense is expected to be recognized over a weighted average period of 2.3 years.

Restricted Stock Units

Certain employees are awarded the right to receive RSUs that vest between three and five years after grant and can be forfeited or accelerated under certain conditions.

A summary of changes in Occidental's unvested RSUs during the year ended December 31, 2005, is presented below:

	2005	
	RSUs (000's)	Weighted Average Grant Date Fair Value
Unvested at January 1	1,405	$39.47
Granted or issued	1,116	81.81
Vested	(629)	39.70
Forfeitures	(1)	81.61
Unvested at December 31	1,891	$65.87

Performance Stock

Certain executives are awarded PSAs that vest at the end of the four-year period following the grant date if performance targets are certified as being met, with payouts that range from zero to 200 percent of the target award. In June 2005, the holders of substantially all of Occidental's unvested PSAs agreed to modify the settlement provisions to provide that the first 100 percent payout will be settled only in physical stock and any payout in excess of 100 percent will be settled only in cash. There was no incremental compensation expense resulting from this modification.

The fair values of the stock settled portion of PSAs are estimated on the grant date using a Monte Carlo simulation model that uses the assumptions noted in the following table. The expected life is based on the vesting period (Term). The volatility factors are based on the historical volatilities of Occidental stock over the Term. The risk-free interest rate is the implied yield available on zero coupon (US Treasury Strip) T-bills at the time of grant with a remaining term equal to the Term. The dividend yield is the expected annual dividend yield over the Term, expressed as a percentage of the stock price on the grant date. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by certain employees who receive stock incentive awards, and subsequent events may not be indicative of the reasonableness of the original estimates of fair value made by Occidental.

The grant-date assumptions used in the Monte Carlo simulation model for stock settled PSAs are as follows:

	2005	2004
Assumptions used		
Risk-free interest rate	3.33%	2.98%
Dividend yield	1.88%	2.46%
Volatility factor	21%	29%
Expected life (years)	4	4

The cash-settled portion of PSAs fair value is also estimated using a Monte Carlo simulation model each quarter, through vesting, using updated assumptions. Changes to cash-settled PSAs fair value are recorded to compensation expense.

A summary of Occidental's unvested PSAs as of December 31, 2005 and changes during the year ended December 31, 2005, is presented below:

	2005		
	Stock Settled Portion of PSAs (000's)	Weighted Average Grant Date Fair Value (Stock Settled Only)	Cash Settled Portion of PSAs (000's)
Unvested at January 1[(a)]	2,227	$27.04	—
Modification[(b)]	(769)	—	769
Granted[(a)]	133	49.61	133
Vested[(c)]	(506)	NA	—
Forfeited[(d)]	(149)	NA	—
Unvested at December 31[(a)]	936	$30.30	902

(a) Unvested awards and award grants are presented at the maximum potential payouts.
(b) In June 2005, the holders of substantially all of Occidental's unvested PSAs agreed to modify the settlement provisions to provide that the first 100 percent payout will be settled only in physical stock and any payout in excess of 100 percent will be settled only in cash.
(c) The 2001 grants vested at the APB Opinion No. 25 settlement value of $61.91 per share.
(d) Forfeitures primarily represent the PSAs that did not vest since the maximum performance criteria were not met.

Pro-Forma Information

As a result of adopting SFAS No. 123R on July 1, 2005, Occidental's income before income taxes and net income for the year ended December 31, 2005 were approximately $12 million and $8 million lower, respectively, than if it had continued to account for stock incentive compensation under the intrinsic value method. Had Occidental continued to use the intrinsic value method, the effect on Basic and Diluted earnings per share would have been an increase of approximately $.02 per share.

Prior to the adoption of SFAS No. 123R, Occidental presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS No. 123R requires the cash flows resulting from tax deductions in excess of the compensation cost recognized for those stock incentive awards (excess tax benefits) to be classified as financing cash flows. The $36 million excess tax benefit classified as a financing cash inflow for the year ended December 31, 2005, would have been classified as an operating cash inflow if Occidental had not adopted SFAS No. 123R.

The following table shows the pro forma net income and earnings per share that Occidental would have recorded if compensation expense was determined using SFAS No. 123R for these periods. The 2005 pro forma information is provided because Occidental did not adopt SFAS No. 123R until July 1, 2005 (amounts in millions, except per share amounts).

	2005	2004	2003
Net Income	$5,281	$2,568	$1,527
Add: Stock-based compensation included in net income, net of tax, under APB Opinion No. 25	104	47	38
Deduct: Stock-based compensation, net of tax, determined under SFAS No. 123 fair value method	(112)	(61)	(56)
Pro forma net income	$5,273	$2,554	$1,509
Earnings per share			
Basic—as reported	$13.09	$ 6.49	$ 3.98
Basic—pro forma	13.08	6.46	3.93
Diluted—as reported	12.91	6.40	3.93
Diluted—pro forma	12.89	6.37	3.88

Savings/Investment Plans

3.91

RUDDICK CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefit Plans (In Part)

The Company also sponsors the Ruddick Retirement and Savings Plan which is a defined contribution retirement plan that was authorized for the purpose of providing retirement benefits for employees of the Company. The Ruddick Retirement and Savings Plan is a salary deferral plan pursuant to Section 401(k) of the Internal Revenue Code. The Company provides a matching contribution based on the amount of eligible compensation contributed by the associate.

Stock Purchase Plans

3.92

NOVELL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation (In Part)

We do not recognize compensation expense related to employee purchase rights under the Novell, Inc. 1989 Employee Stock Purchase Plan. Pro forma compensation expense is estimated for the fair value of the employees' purchase rights using the Black-Scholes model with the following assumptions for the rights granted in fiscal 2005, 2004, and 2003: a dividend yield of 0.0% for all years; an expected life of six months for all years; an expected volatility factor of 0.74 for fiscal 2005, 0.77 for fiscal 2004, and 0.85 for fiscal 2003; and a risk-free interest rate of approximately 1.7% for fiscal 2005, 1.2% for fiscal 2004, and 1.1% for fiscal 2003. The weighted-average fair value of the purchase rights granted on October 18, 2004, April 19, 2004, October 20, 2003, May 7, 2003, October 21, 2002, was $2.50, $4.19, $2.19, $1.07, and $0.93, respectively.

R (In Part): Stockholders' Equity

Employee Stock Purchase Plan

In May 2003, the stockholders approved a 10.0 million share increase to the Company's 1989 Employee Stock Purchase Plan (the "Purchase Plan"). As amended, we are now authorized to issue up to 34.0 million shares of our common stock to our employees who work at least 20 hours a week and more than five months a year. In May 2003, the Purchase Plan was further amended to limit the number of shares that can be purchased by employees during any fiscal year to 3.0 million shares. Under the terms of the Purchase Plan, there are two six-month offer periods per year, and employees can choose to have up to 10% of their salary withheld to purchase our common stock. The employee stock purchase plan was suspended in April 2005 and then amended in September 2005 to provide that the purchase price of the common stock is 95% of the fair market value of Novell's common stock on the purchase date.

Under the Purchase Plan, we issued 1.2 million shares to employees in fiscal 2005, 2.2 million shares to employees in fiscal 2004 and 4.0 million shares to employees in fiscal 2003. This plan has approximately 5.0 million shares available for future issuance.

Shares Reserved for Future Issuance

As of October 31, 2005, there were 87,772,186 shares of common stock reserved for stock option exercises, 5,034,809 shares of common stock reserved for issuances under the stock purchase plan, 1,496,000 shares reserved for the conversion of Series B Preferred Stock, and 52,074,300 shares reserved for the conversion of the Debentures.

Deferred Compensation Plans

3.93

COMPUTER SCIENCES CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Pension and Other Benefit Plans

The Company and its subsidiaries offer a number of pension, postretirement benefit, life insurance benefit, deferred compensation, and other plans, as described below.

Other Benefit Plans (In Part)

Effective August 14, 1995, the Company adopted the Computer Sciences Corporation Deferred Compensation Plan (the Plan). The Plan consists of two separate plans, one for the benefit of key executives and one for the benefit of nonemployee directors. Pursuant to the Plan, certain management and highly compensated employees are eligible to defer all or a portion of their regular salary that exceeds the limitation set forth in Internal Revenue Section 401(a)(17) and all or a portion of their incentive compensation, and nonemployee directors are eligible to defer up to 100% of their compensation. Each plan participant is fully vested in all deferred compensation and earnings credited to his or her account.

The liability under this Plan amounted to $75.7 at April 1, 2005, and $61.0 at April 2, 2004. The Company's expense under the Plan totaled $5.2, $4.4, and $3.5 for fiscal 2005, fiscal 2004 and fiscal 2003, respectively.

Employee Stock Ownership Plans

3.94

POLARIS INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Stock-Based Compensation and Savings Plan

Polaris sponsors a qualified non-leveraged employee stock ownership plan ("ESOP") under which a maximum of 3,250,000 shares of common stock can be awarded. The shares are allocated to eligible participants accounts based on total cash compensation earned during the calendar year. Shares vest immediately and require no cash payments from the recipient. Substantially all employees are eligible to participate in the ESOP, with the exception of Company officers. Total expense related to the ESOP was $9,265,000, $9,533,000, and $9,014,000 in 2005, 2004 and 2003 respectively. As of December 31, 2005 there were 2,399,955 shares vested in the plan.

Profit Sharing Plans

3.95

INTEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Retirement Benefit Plans

Profit Sharing Plans

The company provides tax-qualified profit sharing retirement plans for the benefit of eligible employees, former employees and retirees in the U.S. and certain other countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax-deferred basis and provide for annual discretionary employer contributions. Amounts to be contributed to the U.S. Profit Sharing Plan are determined by the Chief Executive Officer of the company under delegation of authority from the Board of Directors, pursuant to the terms of the Profit Sharing Plan. As of December 31, 2005, approximately 90% of the assets of the U.S. Profit Sharing Plan had been allocated to domestic and international equity index funds and approximately 10% had been allocated to a fixed income fund. All assets are managed by an outside fund manager, consistent with the investment policy.

The company also provides a non-qualified profit sharing retirement plan (SERPLUS) for the benefit of eligible employees in the U.S. This plan is designed to permit certain discretionary employer contributions and to permit employee deferral of a portion of salaries in excess of certain tax limits and deferral of bonuses. This plan is unfunded.

The company expensed $355 million for the qualified and non-qualified U.S. profit sharing retirement plans in 2005 ($323 million in 2004 and $302 million in 2003). The company expects to fund approximately $320 million for the 2005 contribution to the U.S. qualified Profit Sharing Plan and less than $10 million for SERPLUS.

Contributions made by the company to the U.S. Profit Sharing Plan on behalf of the employees vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years, or earlier if the employee reaches age 60.

Incentive Compensation Plans

3.96

KNIGHT-RIDDER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Capital Stock

Through the end of 2005, we had a long-term incentive plan (LTIP). Under the plan, an executive's ability to receive an award is contingent upon and related directly to the total shareholder return (TSR) in the company's stock over a three-year period, compared to the return received by holders of stock in the other peer companies. Under the three year plan period beginning on January 1, 2000 and ending on December 31, 2002, upon the achievement of certain performance goals, 342,707 shares, including dividends, were granted. The performance goals were achieved and, in accordance with the plan, 194,658 shares were distributed to participants in January 2003. The remaining number of shares was withheld to cover the related income tax expense and these shares were subsequently retired. The original plan was not extended after December 31, 2002, but was replaced with a similar long-term incentive plan with cash awards, covering 2003 through 2005. For a description of the cash-based long-term incentive plan, please refer to Note. 13—"Commitments and Contingencies".

The Compensation Committee replaced the LTIP for the 2006 through 2008 grant period with awards, under the Equity Incentive Plan. In the past, LTIP awards vested (if targets were achieved) at the end of three years. Such an LTIP award was typically made every three years. For 2006, the Compensation Committee decided to reduce awards paid under the LTIP replacement to one third of the amount historically granted. These LTIP awards would still have a three-year measurement period, but the Compensation Committee expects to grant such awards annually, rather than every three years. These awards will be made to executive officers and other key employees. The Compensation Committee approved the initial award as restricted stock units. The grant was made January 1, 2006, and the amount of restricted stock units granted to each participant was based on 75% of the then salary of that participant divided by our average closing price for a share of our stock during the month of December 2005. The amount to be paid is based on our total shareholder return (TSR) relative to that of a peer group based on the average closing price for October 2005 compared to the average closing price for December 2008.

To assist the transition from the historical form of LTIP, the Compensation Committee adopted a two-year, long-term incentive transition plan (Transition LTIP). The Transition LTIP award will be paid in two tranches, where amounts are determined on the basis of TSR described above, except that the end period is based on the average closing price during December 2006 and December 2007, respectively, for each of the tranches. The Transition LTIP award is based on 75% of a participant's salary for each tranch and is paid in cash.

Note 13 (In Part): Commitments and Contingencies

Incentive Compensation Plans

The Board of Directors approved and adopted a cash-based long-term incentive plan in 2003. The plan is intended to motivate and reward executives for achieving total shareholder return (TSR) equal to or greater than the median TSR of the companies in our comparison group. Under the plan, participants were selected to participate in the plan prior to the commencement of the three-year performance period ending December 2005; however, participants may be added to the plan as long as there is at least one year remaining in the performance period. Participants are eligible to receive a cash award at the end of each performance period if certain specified performance targets are achieved.

For the three-year plan ended in December 2005, we recognized compensation expense of $13.7 million, $4.8 million and $5.5 million for 2005, 2004 and 2003, respectively, totaling $24.0 million accrued under the current plan. The accrued compensation represents 100% of the maximum payout, based on our meeting the plan requirements as of the end of the three-year period. For a description of the newly created LTIP Plan and the Transitional Plan, please refer to Note 6—Capital Stock.

The Compensation Committee determined at its December 16, 2005 meeting that the bonus target for 2006 for the Chief Executive Officer should be increased to 95% of salary from 85% of salary for 2005. The Compensation Committee also amended the Knight Ridder Annual Incentive Plan (Bonus Plan) to allow the Compensation Committee to set bonus targets for our Senior Vice Presidents outside of the 50% limit prescribed by the Bonus Plan. The Compensation Committee determined that bonus targets for 2006 for our Senior Vice Presidents, should be increased to 60% of salary from 50% of salary for 2005.

Participants in the MBO bonus plan may defer a portion or the entire amount due, subject to IRS guidelines and net of certain taxes. The deferred amounts are fully funded. As of 2005 and 2004, we showed a liability of $38.2 million and $36.8 million, respectively, for amounts deferred, with a corresponding asset, both classified as non-current.

Deposit Share Program

3.97

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Shareholders' Equity

Ball adopted a deposit share program in March 2001 that, by matching purchased shares with restricted shares, encourages certain senior management employees and outside directors to invest in Ball stock. In general, restrictions on the matching shares lapse at the end of four years from date of grant, or earlier if established share ownership guidelines are met, assuming the qualifying purchased shares are not sold or transferred prior to that time. This plan is currently accounted for as a variable plan where compensation expense is recorded based upon the current market price of the company's common stock until restrictions lapse. The company recorded $7.3 million, $17.5 million and $10.5 million of expense in connection with this program in 2005, 2004 and 2003, respectively. The variances in expense recorded are the result of the timing and vesting of the share grants, as well as the higher price of Ball stock. The deposit share program was amended and restated in April 2004 and further awards have been made.

Prior to passage of the Sarbanes-Oxley Act of 2002 (the Act), Ball guaranteed loans made by a third party bank to certain participants in the deposit share program, of which $1.6 million remained outstanding at December 31, 2005. In the event of a participant default. Ball would pursue payment from the participant. The Act provides that companies may no longer guarantee such loans for its executive officers. In accordance with the provisions of the Act, the company has not and will not guarantee any additional loans to its executive officers.

DEPRECIATION EXPENSE

3.98 Paragraph 5 of APB Opinion No. 12, *Omnibus Opinion—1967*, stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5 of Accounting Research Bulletin (ARB) No. 43, Chapter 9C, *Emergency Facilities: Depreciation, Amortization, and Income Taxes*, defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as a "system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."

3.99 Under APB No. 20, *Accounting Changes*, a change in depreciation method for previously recorded assets, such as from double declining balance method to straight line method, is accounted for as a change in accounting principle. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, replaces *APB No. 20* and changes the requirements for the accounting for and reporting of certain accounting changes including a change in depreciation method. *SFAS No. 154* requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Changes in accounting estimate are accounted for prospectively, not retrospectively as is required for changes in accounting principle.

3.100 Table 3-14 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

3.101

TABLE 3-14: DEPRECIATION METHODS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Straight-line	592	586	580	579
Declining-balance	14	16	22	22
Sum-of-the-years'-digits	4	6	5	5
Accelerated method—not specified	30	32	41	44
Units-of-production	24	22	30	32
Group/composite	10	8	4	N/C*
Other	—	—	—	7

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

Straight-Line Method

3.102

AVERY DENNISON CORPORATION (DEC)

Consolidated Statement of Cash Flows

(In millions)	2005	2004	2003
Operating activities			
Net income	$226.4	$279.7	$267.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	155.7	147.2	146.1
Amortization	45.8	41.0	35.4
Deferred taxes	(12.6)	93.1	(3.8)
Asset impairment and net (gain) loss on sale of assets of $7, $2.5 and $(19.6) in 2005, 2004 and 2003, respectively	108.1	12.4	(12.0)
Other non-cash items, net	(7.5)	(.5)	(2.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Major classes of property, plant and equipment are stated at cost and were as follows:

(In millions)	2005	2004
Land	$ 56.0	$ 61.7
Buildings and improvements	623.2	631.5
Machinery and equipment	1,885.4	1,866.7
Construction-in-progress	113.5	138.7
	2,678.1	2,698.6
Accumulated depreciation	(1,382.4)	(1,324.2)
	$ 1,295.7	$ 1,374.4

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets ranging from five to fifty years for buildings and improvements and two to fifteen years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income.

3.103

ECOLAB INC. (DEC)

Consolidated Statement of Cash Flows

(Thousands)	2005	2004	2003
Operating activities			
Net income	$319,481	$282,693	$260,590
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	222,712	213,523	201,512
Amortization	34,223	33,431	26,591
Deferred income taxes	(13,021)	14,342	36,796
Share-based compensation expense	39,087	44,660	29,202
Excess tax benefits from share-based payment arrangements	(11,682)	(11,556)	(5,267)
Gain on sale of equity investment			(11,105)
Disposal loss, net		3,691	
Charge for in-process research and development		1,600	
Special charges—asset disposals			1,684
Other, net	(882)	(2,507)	1,837

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Merchandising equipment consists principally of various systems that dispense the company's cleaning and sanitizing products and dishwashing machines. The dispensing systems are accounted for on a mass asset basis, whereby equipment is capitalized and depreciated as a group and written off when fully depreciated. Depreciation is charged to operations using the straight-line method over the assets' estimated useful lives ranging from 5 to 50 years for buildings, 3 to 7 years for merchandising equipment, and 3 to 11 years for machinery and equipment.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income.

6 (In Part): Balance Sheet Information

(Thousands)	2005	2004	2003
Property, plant and equipment, net			
Land	$ 32,164	$ 34,469	$ 26,921
Buildings and leaseholds	283,487	272,931	243,795
Machinery and equipment	617,408	639,046	589,620
Merchandising equipment	1,072,853	1,065,482	949,553
Construction in progress	32,426	37,106	21,488
	2,038,338	2,049,034	1,831,377
Accumulated depreciation and amortization	(1,202,835)	(1,214,304)	(1,094,580)
Total	$ 835,503	$ 834,730	$ 736,797

Accelerated Methods

3.104

NIKE, INC. (MAY)

Consolidated Statements of Cash Flows

(In millions)	2005	2004	2003
Cash provided (used) by operations			
Net income	$1,211.6	$945.6	$474.0
Income charges not affecting cash:			
Cumulative effect of accounting change	—	—	266.1
Depreciation	257.2	255.2	239.3
Deferred income taxes	21.3	19.0	55.0
Amortization and other	30.5	58.3	23.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements over 2 to 40 years and principally on a double declining balance basis for machinery and equipment over 2 to 15 years. Computer software (including, in some cases, the cost of internal labor) is depreciated on a straight-line basis over 3 to 10 years.

Note 3. Property, Plant and Equipment

Property, plant and equipment includes the following:

(In millions)	2005	2004
Land	$ 185.4	$ 179.5
Buildings	823.9	813.6
Machinery and equipment	1,528.4	1,608.6
Leasehold improvements	568.4	521.3
Construction in process	73.1	60.4
	3,179.2	3,183.4
Less accumulated depreciation	1,573.4	1,571.6
	$1,605.8	$1,611.8

Capitalized interest was not material for the years ended May 31, 2005, 2004 and 2003.

3.105

TEXAS INSTRUMENTS INCORPORATED (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	2005	2004	2003
Cash flows from operating activities			
Net income	$2,324	$1,861	$1,198
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,375	1,479	1,429
Stock-based compensation	178	18	15
Amortization of capitalized software	127	119	96
Amortization of acquisition-related costs	56	70	99
Purchased in-process research and development	—	—	23
(Gains)/losses on investments	(2)	1	(171)
(Gains)/losses on sales of assets	(26)	—	—
Deferred income taxes	(194)	68	75

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies and Practices

Property, Plant and Equipment and Other Capitalized Costs

Property, plant and equipment are stated at cost and prior to January 1, 2006, were depreciated primarily on the 150 percent declining-balance method over their estimated useful lives. Fully depreciated assets are written off against accumulated depreciation. Acquisition-related costs are amortized on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license.

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Change in Depreciation Method

Effective January 1, 2006, as a result of a study made of the pattern of usage of our long-lived depreciable assets, we will adopt the straight-line method of depreciation for all property, plant and equipment. Under the new provisions of SFAS No. 154 *"Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3,"* which become effective as of January 1, 2006, a change in depreciation method is treated as a change in estimate. The effect of the change in depreciation method will be reflected on a prospective basis beginning January 1, 2006, and prior period results will not be restated. As the results of our study indicated that the current estimated useful lives of our assets were appropriate, the depreciable lives of property, plant and equipment assets will not be changed. We believe that the change from the 150 percent declining-balance depreciation method to the straight-line method will better reflect the pattern of consumption of the future benefits to be derived from those assets being depreciated and will provide a better matching of costs and revenues over the assets' estimated useful lives.

Changes in Accounting Standards (In Part)

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3."* This standard provides guidance on the accounting for and reporting of accounting changes and error corrections and will be effective for us beginning January 1, 2006. This standard applies to voluntary changes in existing accounting principles and to new accounting standards that do not specify the transition requirements upon adoption of those standards. Except for changes in depreciation methods, this standard will require retrospective application of the new accounting principle to previous periods reported rather than presenting the cumulative effect of the change as of the beginning of the period of the change. Changes in depreciation methods will be applied on a prospective basis, meaning the effects of the change will be reflected only in current and future periods. Corrections of errors will be reported by restating previously issued financial statements. As mentioned above, we will change our method of depreciation on a prospective basis effective January 1, 2006.

4. Property, Plant and Equipment at Cost

	Depreciable Lives	2005	2004
Land	—	$ 84	$ 88
Buildings and improvements	5-40 years	3,054	2,800
Machinery and equipment	3-10 years	5,783	6,685
Total		$8,921	$9,573

Authorizations for property, plant and equipment expenditures in future years were $674 million at December 31, 2005.

Units-of-Production Method

3.106

LOUISIANA-PACIFIC CORPORATION (DEC)

Consolidated Statements of Income

(Amounts in millions)	2005	2004	2003
Net sales	$2,598.9	$2,730.7	$2,168.7
Operating costs and expenses			
Cost of sales	1,783.3	1,634.3	1,416.8
Depreciation, amortization and cost of timber harvested	132.7	141.1	130.7
Selling and administrative	151.3	159.7	159.0
Other operating credits and charges, net	6.5	28.7	15.2
(Gain) loss on sale of and impairment of long-lived assets, net	3.5	21.5	(118.2)
Total operating costs and expenses	2,077.3	1,985.3	1,603.5
Income from operations	$ 521.6	$ 745.4	$ 565.2

Consolidated Balance Sheets

(Dollar amounts in millions)	2005	2004
Total current assets	$ 1,797.2	$ 1,604.1
Timber and timberlands	92.9	97.7
Property, plant and equipment, at cost		
Land, land improvements and logging roads, net of road amortization	105.8	103.0
Buildings	233.1	221.3
Machinery and equipment	1,476.5	1,395.9
Construction in progress	33.5	40.0
	1,848.9	1,760.2
Accumulated depreciation	(1,065.6)	(1,009.4)
Net property, plant and equipment	783.3	750.8
Goodwill, net of amortization	273.5	273.5
Other intangible assets, net of amortization	7.4	6.9
Notes receivable from asset sales	333.0	403.8
Investment in and advances to affiliates	211.0	132.7
Long-term investments	13.5	30.2
Restricted cash	55.6	65.5
Other assets	30.6	30.7
Long-term assets of discontinued operations	—	54.7
Total assets	$ 3,598.0	$ 3,450.6

NOTES TO THE FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment, including capitalized interest, are recorded at cost. Depreciation for financial statement purposes is provided principally using the units of production method for machinery and equipment which amortizes the cost of equipment over the estimated units that will be produced during its useful life. Provisions for depreciation of buildings, land improvements and the remaining machinery and equipment have been computed using straight-line rates based on the estimated service lives. The effective straight-line lives for the principal classes of property range from three to twenty years.

Logging road construction costs are capitalized and included in land and land improvements. These costs are amortized as the timber volume adjacent to the road system is harvested.

LP capitalizes interest on borrowed funds during construction periods. Capitalized interest is charged to machinery and equipment accounts and amortized over the lives of the related assets. Interest capitalized during 2005, 2004 and 2003 was $3.7 million, $4.2 million and $0.4 million.

Composite Method

3.107

PHELPS DODGE CORPORATION (DEC)

(In millions)	2005	2004	2003
Sales and other operating revenues	$8,287.1	$6,415.2	$3,498.5
Operating costs and expenses			
Cost of products sold (exclusive of items shown separately below)	5,281.8	4,226.7	2,766.1
Depreciation, depletion and amortization	441.8	455.5	376.7
Selling and general administrative expense	158.5	140.1	126.9
Exploration and research expense	117.0	56.4	44.3
Special items and provisions, net	523.1	61.6	41.7
	6,522.2	4,940.3	3,355.7
Operating income	$1,764.9	$1,474.9	$ 142.8

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

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Cost of significant assets includes capitalized interest incurred during the construction and development period. Expenditures for replacements and betterments are capitalized; maintenance and repair expenditures are charged to operations as incurred except for planned major maintenance activities at our copper smelters and molybdenum roasters as described below.

The principal depreciation method used for mining, smelting and refining operations is the units-of-production method applied on a group basis.

Depreciation rates for each mine's production are based on the ratio of depreciable mine assets over the associated projected life-of-mine of proven and probable ore reserves. Depreciable mine assets exclude non-mining land (which is not depreciated or depleted), mining land (which is depleted separately), short-line assets (which are depreciated on a straight-line basis over their estimated useful lives less estimated salvage value) and undeveloped ore body values.

Depreciation rates for smelter and refinery production are based on the ratio of total facility depreciable assets over projected life-of-facility production. Depreciable facility assets exclude non-depreciable assets (such as land values) and short-lived assets (which are depreciated on a straight-line basis over their estimated useful lives less estimated salvage value).

Buildings, machinery and equipment for our other operations are depreciated using the straight-line method over estimated lives of three to 40 years, or the estimated life of the operation if shorter.

Values for mining properties represent mainly acquisition costs. Depletion of mines is computed on the basis of an overall unit rate applied to the pounds of principal products sold from mine production.

Mine exploration costs and stripping costs to maintain production of operating mines are charged to operations as incurred. Mine development expenditures at new mines, and major development expenditures at operating mines outside existing pit limits that are expected to benefit future production beyond a minimum of one year, are capitalized and amortized on the units-of-production method. Major development expenditures at operating mines include the cost to remove overburden to prepare unique and identifiable areas outside the current mining area for such future production. Capitalized major development is amortized on a units-of-production method over associated proven and probable ore reserves.

Our policy for repair and maintenance costs incurred in connection with periodic, planned, major maintenance activities that benefit future periods greater than 12 months at our continuously operating copper smelters is to defer such costs when incurred and charge them to operations equally during the subsequent periods benefited. These operations require shutdowns of the entire facility to perform planned, major repair and maintenance activities on fumaces, acid plants, anode vessels, oxygen plants and other ancillary facilities. The frequency of such repair and maintenance activities is predictable and scheduled and typically ranges from 12 to 36 months, depending on the facility and area involved.

9. Property, Plant and Equipment

Property, plant and equipment at December 31 comprised the following:

	2005	2004
Buildings, machinery and equipment	$7,028.8	$7,786.2
Mining properties	1,604.5	1,656.7
Capitalized mine development	221.2	216.2
Land and water rights	126.0	147.9
	8,980.5	9,807.0
Less accumulated depreciation, depletion and amortization	4,149.6	4,488.1
	$4,830.9	5,318.9

Depletion

3.108

NOBLE ENERGY, INC. (DEC)

Consolidated Statements of Operations

(In thousands)	2005	2004	2003
Revenues			
Oil and gas sales and royalties	$1,966,422	$1,164,975	$ 836,860
Gathering, marketing and processing	55,261	49,250	68,158
Electricity sales	74,228	58,627	58,022
Income from equity method investments	90,812	78,199	45,186
Total revenues	2,186,723	1,351,051	1,008,226
Costs and expenses			
Oil and gas operations	217,860	153,106	118,027
Production and ad valorem taxes	78,703	28,022	22,722
Transportation	16,764	19,808	20,888
Oil and gas exploration	178,426	117,001	148,818
Gathering, marketing and processing	28,067	37,699	59,114
Electricity generation	53,137	47,788	50,846
Depreciation, depletion and amortization	390,544	308,103	308,586
Impairment of operating assets	5,368	9,885	31,937
Selling, general and administrative	100,125	61,852	54,907
Accretion of discount on asset retirement obligations	11,214	9,352	9,331
Interest	87,541	53,460	47,681
Deferred compensation adjustment	17,918	—	—
Loss on involuntary conversion of assets	1,000	1,000	—
Other expense (income), net	31,396	(9,033)	(5,036)
Total costs and expenses	1,218,063	838,043	867,821
Income before taxes	$ 968,660	$ 513,008	$ 140,405

Consolidated Balance Sheets

(In thousands)	2005	2004
Total current assets	$ 1,175,511	$ 733,561
Property, plant and equipment, at cost:		
Oil and gas mineral interests, equipment and facilities (successful efforts method of accounting)	8,411,426	4,136,088
Other	69,869	56,707
	8,481,295	4,192,795
Accumulated depreciation, depletion and amortization	(2,282,379)	(2,012,080)
Total property, plant and equipment, net	6,198,916	2,180,715
Equity method investments	420,362	377,384
Other assets	220,376	144,124
Goodwill	862,868	—
Total assets	$ 8,878,033	$ 3,435,784

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in tables, unless otherwise indicated, are in thousands)

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

Property, Plant and Equipment

Successful Efforts Method

The Company accounts for its crude oil and natural gas properties under the successful efforts method of accounting. Under this method, costs to acquire mineral interests in crude oil and natural gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Capitalized costs of producing crude oil and natural gas properties are amortized to operations by the unit-of-production method based on proved developed crude oil and natural gas reserves on a property-by-property basis as estimated by Company engineers. Upon sale or retirement of depreciable or depletable property, the cost and related accumulated depreciation, depletion and amortization ("DD&A") are eliminated from the accounts and the resulting gain or loss is recognized. Repairs and maintenance are expensed as incurred.

Proved Properties

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews proved oil and gas properties and other long-lived assets for impairment when events and circumstances indicate a decline in the recoverability of the carrying value of such properties, such as a downward revision of the reserve estimates or commodity prices. The Company estimates the future cash flows expected in connection with the properties and compares such future cash flows to the carrying amount of the properties to determine if the carrying amount is recoverable. When the carrying amounts of the properties exceed their estimated undiscounted future cash flows, the carrying amount of the properties is written down to their estimated fair value. The factors used to determine fair value include, but are not limited to, estimates of proved reserves, future commodity prices, and timing of future production, future capital expenditures and a risk-adjusted discount rate.

The Company recorded $5.4 million of impairments in 2005, primarily related to downward reserve revisions on four domestic properties. The Company recorded $9.9 million of impairments in 2004, primarily related to downward reserve revisions on two domestic properties. The Company recorded $31.9 million of impairments in 2003, primarily related to a reserve revision on a Gulf of Mexico property after recompletion and remediation activities produced less-than-expected results.

Unproved Properties

Individually significant unproved properties are also periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. Cash flows used in the impairment analysis are determined based on management's estimates of crude oil and natural gas reserves, future commodity prices and future costs to extract the reserves. Cash flow estimates related to probable and possible reserves are reduced by additional risk-weighting factors. Other individually insignificant unproved properties are amortized on a composite method based on the Company's experience of successful drilling and average holding period. During 2005, the Company recorded impairments of individually significant unproved properties of $3.1 million in exploration expense.

Properties Acquired in Patina Merger

In determining the fair values of Patina's proved and unproved properties, the Company prepared estimates of crude oil and natural gas reserves. The Company estimated future prices to apply to the estimated reserve quantities acquired, and estimated future operating and development costs, to arrive at estimates of future net revenues. For the fair value assigned to proved reserves, the future net revenues were discounted using a market-based weighted average cost of capital rate determined appropriate at the time of the merger. To compensate for the inherent risk of estimating and valuing unproved reserves, the discounted future net revenues of probable and possible reserves were reduced by additional risk-weighting factors.

Exploration Costs

Geological and geophysical costs, delay rentals and costs to drill exploratory wells that do not find proved reserves are expensed as oil and gas exploration. The Company will carry the costs of an exploratory well as an asset if the well found a sufficient quantity of reserves to justify its capitalization as a producing well and as long as the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. For certain capital-intensive deepwater Gulf of Mexico or international projects, it may take the Company more than one year to evaluate the future potential of the exploration well and make a determination of its economic viability. The Company's ability to move forward on a project may be dependent on gaining access to transportation or processing facilities or obtaining permits and government or partner approval, the timing of which is beyond the Company's control. In such cases, exploratory well costs remain suspended as long as the Company is actively pursuing access to necessary facilities and access to such permits and approvals and believes they will be obtained. Management assesses the status of its suspended exploratory well costs on a quarterly basis. See "Note 5—Capitalized Exploratory Well Costs."

Note 5. Capitalized Exploratory Well Costs

The Company capitalizes exploratory well costs until a determination is made that the well has found proved reserves or is deemed noncommercial, in which case the well costs are immediately charged to exploration expense.

The following table reflects the Company's capitalized exploratory well activity and does not include amounts that were capitalized and subsequently expensed in the same period:

(In thousands)	2005	2004	2003
Capitalized exploratory well costs, beginning of period	$ 62,724	$ 29,375	$ 30,237
Additions to capitalized exploratory well costs pending determination of proved reserves	33,671	45,011	29,092
Reclassified to property, plant and equipment based on determination of proved reserves	(52,138)	(1,061)	(4,377)
Capitalized exploratory well costs charged to expense	(9,029)	(10,601)	(25,577)
Capitalized exploratory well costs, end of period	$ 35,228	$ 62,724	$ 29,375

The following table provides an aging of capitalized exploratory well costs (suspended well costs), as of December 31 of each year, based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling:

(In thousands)	2005	2004	2003
Capitalized exploratory well costs that have been capitalized for a period of one year or less	$35,228	$44,986	$27,681
Capitalized exploratory well costs that have been capitalized for a period greater than one year	—	17,738	1,694
Balance at end of period	$35,228	$62,724	$29,375
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	—	4	4

The four projects as of December 31, 2004 that had exploratory costs greater than one year were reclassified to property, plant and equipment during 2005 when proved reserves were recorded.

INCOME TAXES

PRESENTATION OF INCOME TAXES

3.109 SFAS No. 109, *Accounting for Income Taxes,* is the authoritative pronouncement on accounting for and reporting income tax liabilities and expense. Paragraphs 41–49 of *SFAS No. 109* set forth standards for financial presentation and disclosure of income tax liabilities and expense. Effective for fiscal years beginning after December 15, 2006 with earlier application encouraged, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. *FIN No. 48* prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. In addition, *FIN No. 48* provides guidance on derecognition, classification, disclosure and transition. Under *FIN No. 48,* tax positions accounted for in accordance with *SFAS No. 109* will be evaluated for recognition, derecognition, and measurement using consistent criteria. Finally, the disclosure provision of *FIN No. 48* will provide more information about the uncertainty in income tax assets and liabilities.

3.110 Table 3-15 summarizes the descriptive captions used by the survey companies to identify income tax expense. Examples of income tax expense presentation and disclosure follow.

3.111

TABLE 3-15: INCOME TAX EXPENSE

	2005	**2004**	**2003**	**2002**
Descriptive Terms				
Income taxes	589	588	585	583
Federal income taxes	8	8	10	11
United States (U.S.) income taxes	1	1	1	1
	598	**597**	**596**	**595**
Other or no current year amount	2	3	4	5
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

3.112

MURPHY OIL CORPORATION (DEC)

(Thousands of dollars)	2005	2004	2003
Revenues			
Sales and other operating revenues	$11,680,079	$8,299,147	$5,094,518
Gain on sale of assets	175,140	69,594	61,524
Interest and other income (loss)	21,932	(8,902)	8,615
Total revenues	11,877,151	8,359,839	5,164,657
Costs and expenses			
Crude oil and product purchases	8,783,042	6,153,413	3,678,729
Operating expenses	848,647	736,057	582,131
Exploration expenses, including undeveloped lease amortization	232,400	164,227	112,638
Selling and general expenses	158,889	132,329	119,538
Depreciation, depletion and amortization	396,875	321,446	258,857
Net costs associated with hurricanes	66,770	3,350	—
Impairment of long-lived assets	—	—	8,314
Accretion of asset retirement obligations	9,704	10,017	9,734
Interest expense	47,304	56,224	57,751
Interest capitalized	(38,539)	(22,160)	(37,240)
Total costs and expenses	10,505,092	7,554,903	4,790,452
Income from continuing operations before income taxes	1,372,059	804,936	374,205
Income tax expense	534,156	308,541	95,795
Income from continuing operations	$ 837,903	$ 496,395	$ 278,410

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed will be in effect when the differences reverse. Petroleum revenue taxes are provided using the estimated effective tax rate over the life of applicable U.K. properties. The Company uses the deferral method to account for Canadian investment tax credits associated with the Hibernia and Terra Nova oil fields.

Note H. Income Taxes

The components of income from continuing operations before income taxes for each of the three years ended December 31, 2005 and income tax expense (benefit) attributable thereto were as follows.

(Thousands of dollars)	2005	2004	2003
Income (loss) from continuing operations before income taxes			
United States	$ 628,691	$244,758	$ (50,296)
Foreign	743,368	560,178	424,501
	$1,372,059	$804,936	$374,205
Income tax expense (benefit) from continuing operations			
Federal—Current	$ 165,019	$ 22,446	$ (5,321)
Deferred	43,693	78,446	(11,911)
Noncurrent		(1,339)	(18,217)
	208,712	99,553	(35,449)
State	10,229	2,154	84
Foreign—Current	319,976	194,405	96,795
Deferred*	(5,333)	13,759	24,715
Noncurrent	572	(1,330)	9,650
	315,215	206,834	131,160
Total	$ 534,156	$308,541	$ 95,795

* Includes benefits of $4,923 in 2004 and $10,101 in 2003 for enacted reductions in federal and provincial tax rates in Canada.

Income tax benefits attributable to employee stock option transactions of $15,567,000 in 2005, $553,000 in 2004 and $467,000 in 2003 were included in Capital in Excess of Par Value in the Consolidated Balance Sheets. Income tax benefits of $7,795,000 in 2005, $2,712,000 in 2004 and $11,549,000 in 2003 relating to derivatives were included in Accumulated Other Comprehensive Income (AOCI).

Total income tax expense in 2005, 2004 and 2003, including taxes associated with discontinued operations and the cumulative effect of a change in accounting principle, was $525,607,000, $348,297,000, and $116,577,000, respectively.

Noncurrent taxes, classified in the Consolidated Balance Sheets as a component of Deferred Credits and Other Liabilities, relate primarily to matters not resolved with various taxing authorities.

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense from continuing operations and before cumulative effect of accounting change.

(Thousands of dollars)	2005	2004	2003
Income tax expense based on the U.S. statutory tax rate	$480,221	$281,727	$130,971
Foreign income subject to foreign taxes at a rate different than the U.S. statutory rate	56,358	23,002	9,865
Canadian withholding tax and federal tax on dividend	8,520	45,863	—
State income taxes, net of federal benefit	6,649	1,400	54
Settlement of U.S. and foreign taxes	(21,849)	(5,545)	(20,146)
Changes in foreign tax rates	—	(4,923)	(10,101)
Recognition of deferred income tax benefit related to exploration and other expenses in Malaysia	—	(31,858)	(11,410)
Other, net	4,257	(1,125)	(3,438)
Total	$534,156	$308,541	$ 95,795

An analysis of the Company's deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 showing the tax effects of significant temporary differences follows.

(Thousands of dollars)	2005	2004
Deferred tax assets		
Property and leasehold costs	$ 151,808	$ 118,179
Liabilities for dismantlements and major repairs	82,765	88,580
Postretirement and other employee benefits	61,325	58,770
Foreign tax credit carryforwards	39,869	22,625
Other deferred tax assets	70,305	72,057
Total gross deferred tax assets	406,072	360,211
Less valuation allowance	(151,057)	(83,962)
Net deferred tax assets*	255,015	276,249
Deferred tax liabilities		
Property, plant and equipment	(73,509)	(82,048)
Accumulated depreciation, depletion and amortization	(541,564)	(521,311)
Foreign currency translation gains	(97,726)	(91,019)
Other deferred tax liabilities	(87,716)	(96,740)
Total gross deferred tax liabilities	(800,515)	(791,118)
Net deferred tax liabilities	$(545,500)	$(514,869)

* Includes deferred tax assets in Malaysia of $28,314,000 and $30,777,000 as of December 31, 2005 and 2004, respectively, that are reported in Deferred Charges and Other Assets in the Consolidated Balance Sheet.

In management's judgment, the net deferred tax assets in the preceding table will more likely than not be realized as reductions of future taxable income or by utilizing available tax planning strategies. The valuation allowance for deferred tax assets relates primarily to tax assets arising in foreign tax jurisdictions and foreign tax credit carryforwards, and in the judgment of management, these tax assets are not likely to be realized. The foreign tax credit carryforwards expire in 2011, 2014 and 2015. The Company recorded deferred tax benefits of $31,858,000 in 2004 and $11,410,000 in 2003 to recognize anticipated future tax benefits on exploration and other expenses related to Blocks K, SK 309 and SK 311 in Malaysia. The valuation allowance increased $67,095,000 in 2005, with these changes primarily offsetting the change in certain deferred tax assets. Any subsequent reductions of the valuation allowance will be reported as reductions of tax expense assuming no offsetting change in the deferred tax asset.

During 2005 and 2004, the Company recorded income tax expense of $8,520,000 and $45,863,000, respectively, related to repatriation of U.K. and Canadian earnings to the U.S. The most significant portion of the expense in both years related to a 5% withholding tax on funds repatriated from Canada. This tax was not recorded in prior years because, until the sale of most western Canadian assets occurred in 2004, these funds were considered permanently invested, and therefore, met the criteria for not recording income tax expense. The Company has not recognized a deferred tax liability for undistributed earnings of certain international subsidiaries because such earnings are considered permanently invested in foreign countries. As of December 31,2005, undistributed earnings of international subsidiaries considered permanently invested were approximately $922,000,000. The unrecognized deferred tax liability is dependent of many factors including withholding taxes under current tax treaties and foreign tax credits and is estimated to be $46,100,000. The Company does not consider undistributed earnings from certain other international operations to be permanently invested; however, any estimated tax liabilities upon repatriation of earnings from these international operations are expected to be offset with foreign tax credits.

Tax returns are subject to audit by various taxing authorities. In 2005,2004 and 2003, the Company recorded benefits to income of $21,849,000, $5,545,000 and $20,146,000, respectively, from settlements of U.S. and foreign tax issues primarily related to prior years. Although the Company believes that adequate accruals have been made for unsettled issues, additional gains or losses could occur in future years from resolution of outstanding matters.

3.113

SNAP-ON INCORPORATED (DEC)

(Amounts in millions)	2005	2004	2003
Net sales	$ 2,308.6	$ 2,329.1	$ 2,233.2
Financial services revenue	53.6	78.1	—
Total revenue	2,362.2	2,407.2	2,233.2
Cost of goods sold	(1,288.7)	(1,319.8)	(1,268.5)
Operating expenses	(905.5)	(945.1)	(858.4)
Net finance income	—	—	43.8
Operating earnings	168.0	142.3	150.1
Interest expense	(21.7)	(23.0)	(24.4)
Other income (expense)—net	1.7	1.1	(9.0)
Earnings before income taxes	148.0	120.4	116.7
Income tax expense	(55.1)	(38.7)	(38.0)
Net earnings	$ 92.9	$ 81.7	$ 78.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Accounting Policies

Income Taxes

Deferred income taxes are provided for temporary differences arising from differences in bases of assets and liabilities for tax and financial reporting purposes. Deferred income taxes are recorded on temporary differences at the tax rate expected to be in effect when the temporary differences reverse. See Note 9 for further discussion of income taxes.

Note 9. Income Taxes

The source of earnings before income taxes consisted of the following:

(Amounts in millions)	2005	2004	2003
U.S.	$ 48.8	$ 72.3	$ 62.2
Foreign	99.2	48.1	54.5
Total earnings before income taxes	$148.0	$120.4	$116.7

The provision (benefit) for income taxes consisted of the following:

(Amounts in millions)	2005	2004	2003
Current			
Federal	$ 9.1	$ (3.7)	$10.2
Foreign	27.2	21.2	12.9
State	4.2	(0.4)	1.0
Total current	40.5	17.1	24.1
Deferred			
Federal	13.4	24.4	8.1
Foreign	1.3	(4.3)	3.4
State	(0.1)	1.5	2.4
Total deferred	14.6	21.6	13.9
Total income tax provision	$55.1	$38.7	$38.0

A reconciliation of the statutory federal income tax rate to Snap-on's effective tax rate is as follows:

	2005	2004	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from			
State income taxes, net of federal benefit	1.9	1.5	1.9
Extraterritorial income exclusion	(1.6)	(2.8)	(2.3)
Change in valuation allowance for foreign losses	1.4	2.6	1.0
Adjustments to tax accruals and reserves	(1.1)	(2.9)	(2.5)
Foreign rate differences	(2.1)	(1.8)	(1.3)
Repatriation of qualifying foreign dividends under the American Jobs Creation Act of 2004	2.2	—	—
Other	1.5	0.5	0.8
Effective tax rate	37.2%	32.1%	32.6%

Temporary differences that give rise to the net deferred tax asset are as follows:

(Amounts in millions)	2005	2004	2003
Current deferred income tax assets			
Inventories	$ 23.4	$ 34.2	$ 28.2
Accruals not currently deductible	48.6	39.2	32.3
Restructuring and other non-recurring accruals	—	0.6	1.3
Other	1.8	1.6	2.7
Total current (included in deferred income tax benefits and other accrued liabilities)	73.8	75.6	64.5
Long-term deferred income tax assets (liabilities)			
Employee benefits	58.0	(2.3)	37.2
Net operating losses	53.8	58.1	48.7
Depreciation	(55.0)	(36.7)	(45.2)
SOC securitization	(35.5)	(41.9)	(21.2)
Valuation allowance	(42.2)	(43.5)	(37.8)
Other	3.4	(0.8)	0.1
Total long term	(17.5)	(67.1)	(18.2)
Net deferred income tax asset	$ 56.3	$ 8.5	$ 46.3

At December 31, 2005, Snap-on had tax net operating loss carryforwards totaling $270.2 million as follows:

(Amounts in millions)	State	U.S.	Foreign	Total
Year of expiration				
2006–2010	$ 0.9	$—	$ 2.5	$ 3.4
2011–2015	72.1	—	12.2	84.3
2016–2020	59.0	—	—	59.0
2021–2025	14.1	—	—	14.1
Indefinite	—	—	109.4	109.4
Total net operating loss carryforwards	$146.1	$—	$124.1	$270.2

A valuation allowance totaling $42.2 million, $43.5 million and $37.8 million in 2005, 2004 and 2003 has been established for deferred income tax benefits related to certain subsidiary loss carryforwards that may not be realized. Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

In October 2004 the American Jobs Creation Act of 2004 (the "AJCA") was signed into law. The AJCA creates a one-time tax incentive for U.S. corporations to repatriate accumulated foreign earnings by providing a tax deduction of 85% of qualifying dividends received from foreign affiliates. Under the provisions of the AJCA, Snap-on repatriated approximately $93 million of qualifying dividends in the second half of 2005, which resulted in additional income tax expense of $3.3 million for the year. Of the additional $3.3 million income tax expense, $2.8 million was recorded in the third quarter based on plans to repatriate approximately $75 million of qualifying dividends. Additional income tax expense of $0.5 million was recorded in the fourth quarter of 2005 as the amount repatriated increased by approximately $18 million over earlier estimates. The undistributed earnings of all non-U.S. subsidiaries totaled $173.6 million, $241.2 million and $214.7 million at the end of 2005, 2004 and 2003. Snap-on has not provided any deferred taxes on these undistributed earnings as it considers the undistributed earnings to be permanently invested. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

3.114

SPECTRUM CONTROL, INC. (NOV)

(Amounts in thousands)	2005	2004	2003
Net sales	$98,354	$80,477	$62,985
Cost of products sold	72,579	57,928	49,086
Gross margin	25,775	22,549	13,899
Selling, general and administrative expense	18,641	15,844	12,669
Income from operations	7,134	6,705	1,230
Other income (expense)			
Interest expense	(110)	(112)	(136)
Other income and expense, net	299	184	319
	189	72	183
Income before provision for income taxes	7,323	6,777	1,413
Provision for income taxes	2,718	2,611	559
Net income	$ 4,605	$ 4,166	$ 854

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

15. Income Taxes

For the years ended November 30, 2005, 2004, and 2003, income before income taxes consists of the following (in thousands):

	2005	2004	2003
U.S. operations	$7,064	$6,291	$1,218
Foreign operations	259	486	195
	$7,323	$6,777	$1,413

For the years ended November 30, 2005, 2004, and 2003, the provision for income taxes consists of the following (in thousands):

	2005	2004	2003
Current			
U.S. federal	$2,201	$1,480	$(52)
Foreign	25	182	165
State	164	56	12
Deferred			
U.S. federal	193	622	385
State	135	271	49
	$2,718	$2,611	$559

The difference between the provision for income taxes and the amount computed by applying the U.S. federal income tax rate in effect for the years ended November 30, 2005, 2004, and 2003 consists of the following (in thousands):

	2005	2004	2003
Statutory federal income tax	$2,490	$2,304	$480
State income taxes, net of federal tax effect	198	216	40
Repatriation of foreign earnings	113	—	—
Foreign tax rates	(63)	19	19
Other items	(20)	72	20
	$2,718	$2,611	$559

Significant components of the Company's net deferred tax assets and liabilities are as follows:

(In thousands)	2005	2004
Deferred tax assets		
Inventory valuation	$ 926	$ 571
Allowance for doubtful accounts	367	340
Accrued compensation	359	321
Amortization of intangible assets	211	163
Net operating loss carryforwards	17	97
Other	7	2
Deferred tax assets	1,887	1,494
Deferred tax liabilities		
Amortization of intangible assets	2,113	1,526
Investment in subsidiaries	1,563	1,420
Depreciation of plant and equipment	1,534	1,523
Other	42	62
Deferred tax liabilities	5,252	4,531
Net deferred tax liabilities	$(3,365)	$(3,037)
Net deferred tax assets		
Current	$ 1,621	$ 1,171
Noncurrent	—	12
Net deferred tax liabilities		
Noncurrent	(4,986)	(4,220)
	$(3,365)	$(3,037)

In October 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. Among other provisions, the Act included a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. parent company, provided various criteria were met. In 2005, the Company adopted and executed a formal plan under which accumulated foreign earnings of $1,078,000 from the Company's German subsidiary were distributed to the U.S. parent company. The tax impact of distributing these earnings, for which the Company had not previously recorded a deferred tax liability, was to increase the Company's income tax expense by $113,000 for the year ended November 30, 2005.

The Company has not recorded deferred income taxes on the remaining undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. At November 30,2005, the aggregate undistributed earnings of the foreign subsidiaries amounted to $3,400,000. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not the Company will realize the benefits of the deferred tax assets. Accordingly, no deferred tax asset valuation allowance was recorded at November 30, 2005 or 2004.

At November 30, 2005, the Company had state net operating loss carryforwards of $346,000 expiring at varying amounts through 2025.

Credit Provision

3.115

WAUSAU PAPER CORP. (DEC)

(Amounts in thousands)	2005	2004	2003
Net sales	$1,097,093	$1,040,717	$971,444
Cost of sales	1,044,467	923,176	868,547
Gross profit	52,626	117,541	102,897
Selling and administrative	74,423	75,817	67,619
Restructuring	1,332	—	—
Operating (loss) profit	(23,129)	41,724	35,278
Other income (expense)			
Interest expense	(10,957)	(10,285)	(10,188)
Interest income	479	666	65
Other, net	17	273	25
(Loss) earnings before (credit) provision for income taxes	(33,590)	32,378	25,180
(Credit) provision for income taxes	(14,125)	11,985	9,317
Net (loss) earnings	$ (19,465)	$ 20,393	$ 15,863

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Estimates of income taxes refundable and payable, deferred income tax assets and liabilities, and the effective tax rate are based on an analysis of many factors including interpretations of Federal, state, and foreign income tax laws, the difference between tax and financial reporting basis of assets and liabilities, estimates of amounts currently due or owed, realization of income tax benefits in future years, and current accounting standards. Estimates are reviewed and updated on a quarterly basis as facts and circumstances change and actual results are known. Adjustments to the effective income tax rate and recorded assets and liabilities may occur in future periods if actual results differ significantly from original estimates and interpretations.

Note 7. Income Taxes

Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by the current enacted tax rates. Deferred tax expense (credit) is the result of changes in the deferred tax asset and liability.

The (credit) provision for income taxes is comprised of the following:

(Amounts in thousands)	2005	2004	2003
Current tax (credit) expense			
Federal	$ (1,074)	$ 9,898	$ 574
State	827	2,435	1,589
Total current	(247)	12,333	2,163
Deferred tax (credit) expense			
Federal	(10,615)	(581)	6,447
State	(3,263)	233	707
Total deferred	(13,878)	(348)	7,154
Total (credit) provision for income taxes	$(14,125)	$11,985	$9,317

A reconciliation between taxes computed at the federal statutory rate and our effective tax rate follows:

(All dollar amounts in thousands)	2005		2004		2003	
Federal statutory tax rate	$(11,757)	(35.0%)	$11,332	35.0%	$8,813	35.0%
State taxes (net of federal tax benefits)	(2,796)	(8.3)	1,684	5.2	1,644	6.5
Export sales benefit	(438)	(1.3)	(690)	(2.1)	(336)	(1.3)
Other	866	2.3	(341)	(1.1)	(804)	(3.2)
Effective tax rate	$(14,125)	(42.3%)	$11,985	37.0%	$9,317	37.0%

At the end of 2005, $195.6 million of unused state operating loss and credit carryovers existed, which may be used to offset future state taxable income in various amounts through the year 2020. Because separate state tax returns are filed, Wausau Paper is not able to offset consolidated income with the subsidiaries' losses. Under the provisions of SFAS No. 109, the benefits of state tax losses are recognized as a deferred tax asset, subject to appropriate valuation allowances.

The major temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2005 and 2004, are as follows:

(Amounts in thousands)	2005	2004
Deferred tax assets		
Accrued compensated absences	$ 4,289	$ 4,277
Pensions	1,698	3,360
Post-retirement benefits	24,754	25,262
State net operating loss carry forward	14,257	11,237
Other	22,377	13,894
Gross deferred tax asset	67,375	58,030
Less valuation allowance	(10,927)	(8,369)
Net deferred tax assets	56,448	49,661
Deferred tax liabilities		
Property, plant, and equipment	(126,734)	(137,601)
Other	(11,077)	(9,353)
Gross deferred tax liability	(137,811)	(146,954)
Net deferred tax liability	$ (81,363)	$ (97,293)

The total deferred tax assets (liabilities) as presented in the accompanying consolidated balance sheets are as follows:

(Amounts in thousands)	2005	2004
Net deferred tax assets	$ 9,971	$ 8,592
Net long-term deferred tax liabilities	(91,334)	(105,885)
Net deferred tax liability	$(81,363)	$ (97,293)

A valuation allowance has been recognized for Wausau Paper and two of our subsidiaries' state loss carry forward and future deductible items, as cumulative losses create uncertainty about the realization of the tax benefits in future years.

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.116 Paragraph 48 of *SFAS No. 109* states that amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes should be disclosed. Examples of operating loss and tax credit carryforward disclosures follow.

3.117

THE J. M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note A (In Part): Accounting Policies

Income Taxes

The Company accounts for income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized in income or expense in the period that the change is effective. Tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

Note Q (In Part): Income Taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting. Significant components of the Company's deferred tax assets and liabilities are as follows:

	2005	2004
Deferred tax liabilities		
Intangible assets	$130,711	$115,433
Depreciation and amortization	68,228	35,575
Other (each less than five percent of total liabilities)	13,816	7,396
Total deferred tax liabilities	$212,755	$158,404
Deferred tax assets		
Loss carryforwards	$ 64,160	$ 256
Employee benefits	41,237	18,510
Tax credit carryforwards	12,139	—
Intangible assets	7,103	1,860
Other (each less than five percent of total assets)	13,109	3,949
Total deferred tax assets	$137,748	$ 24,575
Valuation allowance for deferred tax assets	(24,280)	(266)
Total deferred tax assets less allowance	$113,468	$ 24,309
Net deferred tax liability	$ 99,287	$134,095

The Company acquired a number of tax loss and credit carryforwards as a result of the Multifoods acquisition. The valuation allowance for deferred tax assets at April 30, 2005, primarily relates to these acquired deferred tax assets.

The following table summarizes domestic and foreign loss carryforwards at April 30, 2005.

	Related Tax Deduction	Deferred Tax Asset	Expiration Date
Loss carryforwards			
Federal net operating loss	$141,462	$49,512	2021 to 2024
Federal capital loss	19,779	7,322	2009 to 2010
State net operating loss	101,936	6,959	2006 to 2027
Foreign net operating loss	1,117	367	2011 to 2014
Total loss carryforwards	$264,294	$64,160	

The following table summarizes tax credit carryforwards at April 30, 2005.

	Deferred Tax Asset	Expiration Date
Tax credit carryforwards		
Foreign tax credit	$ 9,448	2010 to 2015
Alternative minimum tax credit	2,691	Indefinite
Total tax credit carryforwards	$12,139	

The valuation allowance at April 30, 2005, includes approximately $23,195 for the above domestic and foreign loss and tax credit carryforwards.

Domestic income and foreign withholding taxes have not been recorded on undistributed earnings of foreign subsidiaries since these amounts are considered to be permanently reinvested. Any additional taxes payable on the earnings of foreign subsidiaries, if remitted, would be partially offset by domestic tax credits and deductions for foreign taxes already paid.

3.118

TIME WARNER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income Taxes

Income taxes are provided using the asset and liability method prescribed by FASB Statement No. 109, "Accounting for Income Taxes." Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. The subsequent realization of net operating loss and general business credit carryforwards acquired in acquisitions accounted for using the purchase method of accounting is recorded as a reduction of goodwill. Investment tax credits earned are offset against the cost of inventory or property acquired or produced. Research and development credits are recorded based on the amount of benefit the Company believes is probable of being earned. The majority of such research and development benefits were recorded to shareholders' equity as they resulted from stock option deductions for which such amounts are recorded as an increase to additional paid-in-capital.

9 (In Part): Income Taxes

Significant components of Time Warner's net deferred tax liabilities are as follows:

(Millions)	2005	2004
Deferred tax liabilities		
Assets acquired in business combinations	$15,082	$15,344
Depreciation and amortization	1,950	1,823
Unrealized appreciation of certain marketable securities	64	466
Unremitted earnings of foreign subsidiaries	64	47
Other	1,521	1,139
Total deferred tax liabilities	18,681	18,819
Deferred tax assets		
Tax attribute carryforwards	3,888	4,510
Receivable allowances and return reserves	432	364
Investments	746	1,037
Other	1,230	851
Valuation allowance[(a)]	(2,753)	(2,886)
Total deferred tax assets	3,543	3,876
Net deferred tax liability[(b)]	$15,138	$14,943

(a) The Company has recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets. Of the approximately $2.8 billion valuation allowance at December 31, 2005, $500 million were recorded through goodwill and $160 million were recorded through additional paid-in-capital. Therefore, if in the future the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed against goodwill and additional paid-in-capital, to the extent thereof, with the remaining balance recognized in income.

(b) The deferred tax liability balance at December 31, 2005 increased during the year due primarily to deferred tax liabilities recorded as part of the current year tax expense net of a decrease in deferred tax liabilities associated with certain marketable securities holding substantial appreciation that was realized for tax purposes upon sale during the year.

U.S. income and foreign withholding taxes have not been recorded on permanently reinvested earnings of certain foreign subsidiaries aggregating approximately $1.3 billion at December 31, 2005. Determination of the amount of unrecognized deferred U.S. income tax liability with respect to such earnings is not practicable.

U.S. federal tax attribute carryforwards at December 31, 2005, consist primarily of $5.0 billion of net operating losses, $44 million of capital losses, $166 million of research and development tax credits and $180 million of alternative minimum tax credits. In addition, the Company has approximately $1.8 billion of net operating losses in various foreign jurisdictions that are primarily from countries with unlimited carryforward periods. However, many of these foreign losses are attributable to specific operations that may not be utilized against certain other operations of the Company. The utilization of the U.S. federal carryforwards as an available offset to future taxable income is subject to limitations under U.S. federal income tax laws. If the federal net operating losses are not utilized, they expire in varying amounts, starting in 2019 and continuing through 2023. The capital losses expire in 2008 and can be only utilized against capital gains. Research and development tax credits not utilized will expire in varying amounts starting primarily in 2017 and continuing through 2024. Alternative minimum tax credits do not expire. In addition, the Company holds certain assets that have tax basis greater than book basis. The Company has established deferred tax assets for such differences. However, in the event that such assets are sold or the tax basis otherwise realized, it is anticipated that such realization would generate additional losses for tax purposes. Because of the uncertainties surrounding the Company's capacity to generate enough capital gains to utilize such losses, the Company has in most instances offset these deferred tax assets with a valuation allowance. A majority of the valuation allowance outstanding at December 31, 2005 is attributable to these circumstances.

In the normal course of business, the Company takes positions on its tax returns that may be challenged by domestic and foreign taxing authorities. Certain of these tax positions arise in the context of transactions involving the purchase, sale or exchange of businesses or assets. All such transactions are subject to substantial tax due diligence and planning, in which the underlying form, substance and structure of the transaction is evaluated. Although the Company believes it has support for the positions taken on its tax return, the Company has recorded a liability for its best estimate of the probable loss on certain of these transactions. This liability is included in other long term liabilities. The Company does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

TAXES ON UNDISTRIBUTED EARNINGS

3.119 *SFAS No. 109* requires, except in certain specified situations, that undistributed earnings of a subsidiary included in consolidated income be accounted for as a temporary difference. If a deferred tax liability is not recognized, paragraph 44 of *SFAS No. 109* specifies what information should be disclosed. Examples of disclosures concerning undistributed earnings follow.

3.120

BARNES GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Income Taxes

The Company has not recognized deferred income taxes on $226,743 of undistributed earnings of its international subsidiaries, since such earnings are considered to be reinvested indefinitely. If the earnings were distributed in the form of dividends, the Company would be subject, in certain cases, to both U.S. income taxes and foreign withholding taxes. Determination of the amount of this unrecognized deferred income tax liability is not practicable. Management has evaluated the one-time favorable foreign dividend provisions enacted as part of the American Jobs Creation Act of 2004 and has decided that no cash will be repatriated from its foreign entities under the provisions of this Act due to anticipated future international cash requirements.

3.121

TOYS"R"US, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 (In Part): Income Taxes

Foreign Earnings

The Company has elected to treat four of its foreign subsidiaries as branches or disregarded entities for U.S. federal income tax purposes. By doing so, the earnings and losses of these foreign subsidiaries are included in the calculation of our income subject to current U.S. federal income tax.

During the fiscal year ending January 29, 2005 the Company took advantage of a temporary U.S. federal income tax incentive, repatriated $607 million of foreign earnings, and recorded a federal income tax expense of $54 million on these dividends based on then current law. During the fiscal year ending January 28, 2006 the IRS clarified how the tax on these repatriated foreign earnings should be calculated. Based on these clarified rules, we applied for and received a tax refund of $36 million, and we recorded a corresponding federal income tax benefit.

In the year ending January 28, 2006, management determined that the Company would no longer permanently reinvest any of the earnings of its foreign subsidiaries outside the United States. As such, we have recorded a net U.S. federal income tax expense of $44 million on the $281 million current and cumulative earnings of our foreign subsidiaries.

3.122

WORTHINGTON INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Income Taxes

The Company has considered undistributed earnings of foreign subsidiaries to be indefinitely reinvested. However, on October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides an 85% dividends-received-deduction on qualifying dividends from controlled foreign corporations. On December 21, 2004, the FASB issued SFAS No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, which provides relief concerning the timing of the SFAS No. 109 requirement to accrue deferred taxes for unremitted earnings of foreign subsidiaries. The FASB determined that the provisions of the Act were sufficiently complex and ambiguous that companies may not be in a position to determine the impact of the Act on their plans for repatriation or reinvestment of foreign earnings or the corresponding deferred tax liability. Accrual of any deferred tax liability is not required until companies have the information necessary to determine the amount of earnings to be repatriated and a reasonable estimate can be made of the deferred tax liability.

The Company is still evaluating the potential effect this provision will have should it decide to repatriate earnings from foreign operations. Currently the Company expects this evaluation and any repatriation to be completed in fiscal 2006. Depending on the outcome of this evaluation, the Company could repatriate up to $74,300,000, representing all of its foreign earnings. The corresponding tax effect of a total repatriation would be $3,900,000.

LONG-TERM CONTRACTS

3.123 Accounting and disclosure requirements for long-term contracts are discussed in ARB No. 43, Chapter 11, *Government Contracts*, ARB No. 45, *Long-Term Construction-Type Contracts*, and American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*

3.124 Table 3-16 shows that usually the percentage of completion method or a modification of this method, the units-of-delivery method is used to recognize revenue on long-term contracts. 12 companies used both of the aforementioned methods. Examples of disclosure for long-term contracts follow.

3.125

TABLE 3-16: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	2005	2004	2003	2002
Percentage-of-completion	84	77	78	82
Units-of-delivery	41	39	32	26
Completed contract	6	9	9	5

3.126

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Revenue Recognition

Contract Accounting

Contract accounting is used for development and production activities predominately by the four segments within Integrated Defense Systems (IDS). These activities include the following products and systems: military aircraft, helicopters, missiles, space systems, missile defense systems, satellites, rocket engines, and information and battle management systems. The majority of business conducted in the IDS segments is performed under contracts with the U.S. Government and foreign governments that extend over a number of years. Contract accounting involves a judgmental process of estimating the total sales and costs for each contract resulting in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective; they essentially represent an agreement to do a single project for a single customer; they involve interrelated construction activities with substantial common costs; and they are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined contracts.

Sales related to contracts with fixed prices are recognized as deliveries are made, except for certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, for which sales are recorded based on the attainment of performance milestones. Sales related to contracts in which we are reimbursed for costs incurred plus an agreed upon profit are recorded as costs are incurred. The U.S. Federal Government Acquisition regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be resonably estimated are recorded when awarded.

Program Accounting

Our Commercial Airplanes segment uses program accounting to account for sales and cost of sales related to all commercial airplane programs. Program accounting is a method of accounting applicable to products manufactured for delivery under production-type contracts where profitability is realized over multiple contracts and years. Under program accounting, inventoriable production costs, program tooling costs and routine warranty costs are accumulated and charged to cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced, and (c) the units' expected sales prices, production costs, program tooling, and warranty costs for the total program.

We recognize sales for commercial airplane deliveries as each unit is completed and accepted by the customer. Sales recognized represent the price negotiated with the customer, adjusted by an escalation formula. The amount reported as cost of sales is determined by applying the estimated cost of sales percentage for the total remaining program to the amount of sales recognized for airplanes delivered and accepted by the customer.

Concession Sharing Arrangements

We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction to revenue (sales concessions) when the related products and services are delivered. However, when the sales concessions incurred are partially reimbursed by a supplier in accordance with a concession sharing arrangement, we reduce the sales concessions by the reimbursement. This reduction in sales concessions results in an increase to revenue.

Inventories (In Part)

Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling costs, and applicable overhead, which includes fringe benefits, production related indirect and plant management salaries and plant services, not in excess of estimated net realizable value. In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year.

Because of the higher unit production costs experienced at the beginning of a new or derivative airplane program (known as the learning curve effect), the actual costs incurred for production of the early units in the program will exceed the amount reported as cost of sales for those units. The excess of actual costs over the amount reported as cost of sales is disclosed as deferred production costs, which are included in inventory along with unamortized tooling costs.

The determination of net realizable value of long-term contract costs is based upon quarterly contract reviews that determine an estimate of costs to be incurred to complete all contract requirements. When actual contract costs and the estimate to complete exceed total estimated contract revenues, a loss provision is recorded. The determination of net realizable value of commercial aircraft program costs is based upon quarterly program reviews that determine an estimate of revenue and cost to be incurred to complete the program accounting quantity. When estimated costs to complete exceed estimated program revenues to go, a loss provision is recorded.

Note 6 (In Part): Accounts Receivable

Accounts receivable at December 31 consisted of the following:

	2005	2004
U.S. Government contracts	$2,620	$2,701
Commercial and customers	1,155	985
Other	1,561	1,075
Less valuation allowance	(90)	(108)
	$5,246	$4,653

The following table summarizes our accounts receivable under U.S. Government contracts and commercial satellite contracts that were not billable or related to outstanding claims as of December 31:

	2005	2004
Unbillable		
Current	$ 687	$ 413
Expected to be collected after one year	404	708
	$1,091	$1,121
Claims		
Current	$ 15	$ 8
Expected to be collected after one year	90	23
	$ 105	$ 31

Unbillable receivables on U.S. Government contracts and commercial satellite contracts arise when the sales or revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract as of the balance sheet date. Accounts receivable related to claims are items that we believe are earned, but are subject to uncertainty concerning their determination or ultimate realization.

Note 7. Inventories

Inventories at December 31 consisted of the following:

	2005	2004
Long-term contracts in progress	$ 14,194	$ 12,999
Commercial aircraft programs	7,745	6,072
Commercial spare parts, used aircraft, general stock materials and other, net of reserves	2,235	1,890
	24,174	20,961
Less advances and progress billings	(16,234)	(14,453)
	$ 7,940	$ 6,508

As of December 31, 2004 we reclassified performance based payments and payments in excess of inventoriable costs consisting of ($3,044) of long-term contracts in progress and $783 of advances and progress billings from Inventories to Advances and billings in excess of related costs on our Consolidated Statements of Financial Position. (See Note 14)

Included in long-term contracts in progress inventories at December 31, 2005, and 2004, are Delta program Inventories of $1,000 and $900, respectively, that are not currently recoverable from existing orders; however, based on the Mission Manifest (estimated quantities and timing of launch missions for existing and anticipated contracts), we believe we will recover these costs. These costs include deferred production costs and unamortized tooling described below.

As a normal course of our Commercial Airplanes segment production process, our inventory may include a small quantity of airplanes that are completed but unsold. As of December 31, 2005 and 2004, the value of completed but unsold aircraft in inventory was insignificant. Inventory balances included $234 subject to claims or other uncertainties primarily relating to the A-12 program as of December 31, 2005 and 2004. See Note 24.

Included in commercial aircraft program inventory and directly related to the sales contracts for the production of aircraft are amounts paid or credited in cash or other consideration (early issued sales consideration), to airline customers totaling $1,080 and $665 as of December 31, 2005 and 2004. As of December 31, 2005 and 2004, the amount of early issue sales consideration, net of advance of deposits, included in commercial aircraft program inventory amounted to $194 and $123, which related to one financially troubled customer; however, we believe these amounts are fully recoverable as of December 31, 2005.

Deferred production costs represent commercial aircraft programs and integrated defense programs inventory production costs incurred on in-process and delivered units in excess of the estimated average cost of such units. As of December 31, 2005 and 2004, all significant excess deferred production costs or unamortized tooling costs are recoverable from existing firm orders for the 777 program. The Delta program costs are not currently recoverable from existing orders; however based on the Mission Manifest (estimated quantities and timing of launch missions for existing and anticipated contracts) we believe we will recover these costs. The deferred production costs and unamortized tooling included in Commercial Airplane's 777 program and IDS' Delta program inventory are summarized in the following table:

	2005	2004
Deferred production costs		
777 Program	$683	$703
Delta II & IV Programs	271	221
Unamortized tooling		
777 Program	411	485
Delta II & IV Programs	194	257

As of December 31, 2005 and 2004, the balance of deferred production costs and unamortized tooling related to commercial aircraft programs, except the 777 program, was insignificant relative to the programs' balance-to-go cost estimates.

During the years ended December 31, 2005 and 2004, Commercial Airplanes purchased $102 and $298 of used aircraft. Used aircraft in Inventories totaled $66 and $162 as of December 31, 2005 and 2004.

When our Commercial Airplanes segment is unable to immediately sell used aircraft, it may place the aircraft under an operating lease. It may also finance the sale of new or used aircraft with a short-term note receivable. The carrying amount of the Commercial Airplanes segment used aircraft under operating leases and aircraft sales financed with note receivables included as a component of Customer Financing totaled $640 and $958 as of December 31, 2005 and 2004.

During 2002 we were selected by the US Air Force (USAF) to supply 100 767 Tankers and entered into a preliminary agreement with the USAF for the procurement of the 100 Tankers. On January 14, 2005 we announced our plan to recognize pretax charges totaling $275 related to the USAF 767 Tanker program. The charge, which was a result of our quarter and year-end reviews, reflected our updated assessment of securing the specific USAF 767 Tanker contract that was being negotiated, given the continued delay and then likely re-competition of the contract. As a result, as of December 31, 2004, we expensed $179 (Commercial Airplanes) and $47 (IDS) related to the USAF 767 Tanker contract for Commercial aircraft programs and Long-term contracts in progress, which was included in Cost of products. As of December 31, 2005, there were no additional costs incurred related to the 767 United States Air Force Tanker program.

Note 14. Advances and Billings in Excess of Related Costs

We receive advance payments, performance based payments and progress payments from our commercial and government customers. Performance based payments and progress payments have historically been recorded as inventories, net of advances and progress billings. In 2005, we began classifying performance based payments and progress payments in excess of inventoriable cost in Advances and billings in excess of related costs on the Consolidated Statements of Financial Position and reclassified prior years to conform with our new presentation. As of December 31, 2004, we reclassified $2,261 of performance based payments and progress payments in excess of inventoriable costs from inventories to Advances and billings in excess of related costs.

3.127

HARRIS CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue Recognition

Our segments have the following revenue recognition policies:

Government Communications Systems Segment

Revenue in our Government Communications Systems segment primarily relates to long-term contracts. Recognition of profit on long-term fixed-price contracts requires estimates of: the total contract value; the total cost at completion; and the measurement of progress towards completion. Revenue and profits on cost-reimbursable contracts are recognized as allowable costs are incurred on the contract and become billable to the customer, in an amount equal to the allowable costs plus the profit on those costs. Revenue and anticipated profits under long-term contracts are recorded on a percentage-of-completion basis, generally using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Contracts are combined when specific aggregation criteria stated In the American Institute of Certified Public Accountant's Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1"), are met. Criteria generally include closely interrelated activities performed for a single customer within the same economic environment. Contracts generally are not segmented. If contracts are segmented, they meet the segmenting criteria stated in SOP 81-1. Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions, which increase or decrease earnings based solely on a single significant event, are generally not recognized until the event occurs. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

This segment also has revenue from product and service sales other than long-term contracts, which is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is probable and delivery of a product has occurred and title has transferred or services have been rendered. Further, if an arrangement other than a long-term contract requires the delivery or performance of multiple deliverables or elements under a bundled sale, we determine whether the individual elements represent "separate units of accounting" under the requirements of Emerging Issues Task Force Issue 00-21, "Multiple-Deliverable Revenue Arrangements" ("EITF 00-21"). If the separate elements meet the requirements listed in EITF 00-21, we recognize the revenue associated with each element separately. If the elements within a bundled sale are not considered separate units of accounting, the delivery of an individual element is considered not to have occurred if there are undelivered elements that are essential to the functionality. Unearned income on service contracts is amortized by the straight-line method over the term of the contracts. Also, if contractual obligations related to customer acceptance exist, revenue is not recognized for a product or service unless these obligations are satisfied.

RF Communications Segment

Revenue in our RF Communications segment primarily relates to product and services sales. Revenue recognition from long-term contracts and other than long-term contracts sales follows the same policies as stated under our Government Communications Systems segment's revenue recognition policy above except that our RF Communications segment sometimes uses the units of delivery method of accounting rather than the cost-to-cost method of accounting for production contracts that call for the delivery of larger quantities of products. Under the units of delivery method, sales and profits are recorded based on the ratio of actual units delivered to estimated total units to be delivered under the contract.

Microwave Communications Segment

Revenue in our Microwave Communications segment primarily relates to product and services sales. Revenue recognition from long-term contracts and other than long-term contracts sales follows the same policies as stated under our Government Communications Systems segment's revenue recognition policy above.

Broadcast Communications Segment

Revenue in our Broadcast Communications segment primarily relates to product and services sales. Revenue recognition from long-term contracts and other than long-term contracts sales follows the same policies as stated under our Government Communications Systems segment's revenue recognition policy above. This segment derives a portion of its revenue from the sale of software with multi-year maintenance arrangements. The amount of revenue allocated to undelivered elements under these bundled software sales is based on the vendor-specific objective evidence of fair value for those elements using the residual method. Under the residual method, the total fair value of the undelivered elements, as indicated by vendor-specific objective evidence, is recorded as unearned, and the difference between the total arrangement fee and the amount recorded as unearned for the undelivered elements is recognized as revenue related to delivered elements. Unearned revenue due to undelivered elements is recognized ratably on a straight-line basis over the maintenance agreement.

Note 5. Receivables

Receivables are summarized below:

(In millions)	2005	2004
Accounts receivable	$421.2	$393.3
Unbilled cost from cost-plus contracts	70.3	62.8
Notes receivable due within one year—net	18.3	14.1
	509.8	470.2
Less allowances for collection losses	(15.8)	(12.7)
	$494.0	$457.5

Note 6. Inventories and Unbilled Costs

Inventories are summarized below:

(In millions)	2005	2004
Finished products	$ 48.2	$ 45.6
Work in process	24.6	22.2
Raw materials and supplies	157.5	153.1
	$230.3	$220.9

Unbilled costs and accrued earnings on fixed-price contracts are net of progress payments of $84.0 million at July 1, 2005 and $134.4 million at July 2, 2004.

3.128

HONEYWELL INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

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

Sales Recognition

Product and service sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities in our Aerospace and Automation and Control Solutions reportable segments, are recognized over the contractual period or as services are rendered. Sales under long-term contracts in the Aerospace and Automation and Control Solutions reportable segments are recorded on a percentage-of completion method measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Provisions for anticipated losses on long-term contracts are recorded in full when such losses become evident. Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative fair value of each element and when the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

Note 10. Inventories

	2005	2004
Raw materials	$1,438	$1,153
Work in process	695	779
Finished products	1,427	1,382
	3,560	3,314
Less		
Progress payments	(14)	(24)
Reduction to LIFO cost basis	(145)	(130)
	$3,401	$3,160

Inventories valued at LIFO amounted to $258 and $108 million at December 31, 2005 and 2004, respectively. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $145 and $130 million higher at December 31, 2005 and 2004, respectively.

3.129

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Revenue on equipment and parts sales is recognized when contract terms are met, collectibility is reasonably assured and a product is shipped or risk of ownership has been transferred to and accepted by the customer. Cash discounts or other incentives to customers are recorded as a reduction of revenues. Revenue from service agreements is recognized as earned, when services have been rendered. Revenue from rental agreements is recognized over the rental period.

With respect to long-term construction contracts, revenue is recognized using the percentage-of-completion method. The majority of the Company's long-term construction contracts are fixed-price contracts, and measurement of progress toward completion is based on units-of-production for the FMTV contracts in the Tactical Vehicle Systems segment, and typically based on direct labor hours for other percentage-of-completion contracts. Changes in estimates for revenues, costs to complete and profit margins are recognized in the period which they are reasonably determinable. Any anticipated losses on uncompleted contracts are recognized whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. With respect to cost-plus-fixed-fee contracts, the Company recognizes the fee ratably as the actual costs are incurred, based upon the total fee amounts expected to be realized upon completion of the contracts. Bid and proposal costs are expensed as incurred.

The Company frequently sells equipment together with "start-up" services, which typically involve adding fuel to the engine, starting the equipment for the first time, and observing it to ensure that it is operating properly. In cases where start-up services are required on an equipment sale, the estimated start-up costs are accrued when revenue from the equipment sale is recognized. The Company had approximately \$0.3 million and \$1.6 million of accrued start-up costs that had not yet been performed as of January 31, 2005 and 2004, respectively.

DISCONTINUED OPERATIONS

3.130 Paragraphs 41–44 of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* set forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or operating segment (as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information)*, a reporting entity (as defined by SFAS No. 142, *Goodwill and Other Intangible Assets),* or an asset group (as defined by paragraph 4 of *SFAS No. 144*).

3.131 *SFAS No. 144* uses a single accounting model, based on the framework established in SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, to account for all long-lived assets to be disposed of (by sale, abandonment, or a distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation as specified in paragraph 43 of *SFAS No. 144*. A long-lived asset group classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with paragraph 37 of *SFAS No. 144*, a loss shall be recognized for any write-down to fair value less cost to sell. A gain shall be recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized that results from the sale of the asset disposal group should be recognized at the date of sale. Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

3.132 The conditions for determining whether discontinued operation treatment is appropriate and the required income statement presentation are stated in paragraphs 42 and 43 of *SFAS No. 144* as follows:

> 42. The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 if both of the following conditions are met: (a) the operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the enterprise as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.
>
> 43. In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37, in discontinued operations. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes

(if applicable). For example, the results of discontinued operations may be reported in the income statement of a business enterprise as follows:

Income from continuing operations before income taxes	$XXXX	
Provision for income taxes	XXX	
Income from continuing operations		$XXXX
Discontinued operations (Note—):		
Loss from operations of component X (including loss on disposal of $—)		$XXXX
Income tax benefit		XXXX
Loss on discontinued operations		XXXX
Net income		$XXXX

A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to the financial statements.

3.133 Illustrations of transactions which should and should not be accounted for as business segment disposals are presented in FASB *Accounting Standards—Current Text,* Section I13, *Income Statement Presentation: Discontinued Operations.*

3.134 In 2005, 99 survey companies discontinued or planned to discontinue the operations of a component of an entity. 85 of the survey companies reported a gain or loss recognized on the disposal of a component of an entity. 49 of those survey companies presented the disposal gain or loss on the face of the income statement. Examples of discontinued operations accounted for separately from continuing operations follow.

Business Component Disposals

3.135

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(In millions)	2005	2004	2003
Earnings from continuing operations before minority interest and income taxes	$4,516	$4,418	$4,680
Provision for income taxes	932	1,519	1,210
Minority interest, net of taxes	592	521	373
Earnings from continuing operations	2,992	2,378	3,097
Discontinued operations			
Net earnings	(5)	10	9
Net gain on disposal	13	—	—
	8	10	9
Net earnings	$3,000	$2,388	$3,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Discontinued Operations

In May 2005, the Company completed the sale of Oncology Therapeutics Network (OTN) to One Equity Partners LLC for cash proceeds of $197 million, including the impact of a preliminary working capital adjustment. The Company recorded a pre-tax gain of $63 million ($13 million net of tax) that was presented as a gain on sale of discontinued operations in the consolidated statement of earnings. OTN was previously presented as a separate segment.

The following amounts related to the OTN business have been segregated from continuing operations and reported as discontinued operations through the date of disposition, and do not reflect the costs of certain services provided to OTN by the Company. Such costs, which were not allocated by the Company to OTN, were for services that included legal counsel, insurance, external audit fees, payroll processing, and certain human resource services and information technology systems support.

(Dollars in millions)	2005	2004	2003
Net sales	$1,015	$2,506	$2,241
(Loss)/earnings before income taxes	(8)	15	14
Net (loss)/earnings from discontinued operations	(5)	10	9

The consolidated balance sheet at December 31, 2004, includes OTN net assets expected to be sold. These include $332 million of assets primarily consisting of receivables and $542 million of liabilities primarily consisting of accounts payable. In addition, goodwill related to OTN at December 31, 2004 of $80 million was written-off against the gain on sale in the second quarter of 2005.

The consolidated statement of cash flows includes the OTN business for all periods presented through the date of disposition. The Company uses a centralized approach to the cash management and financing of its operations and accordingly, debt was not allocated to this business. Cash flows from operating activities of discontinued operations consist of outflows of $265 million for the year ended December 31, 2005 and cash inflows of $134 million and $95 million for the years ended December 31, 2004 and 2003, respectively. Cash flows used in investing activities of discontinued operations were $2 million for the year ended December 31, 2004 and there were no investing activities for the years ended December 31, 2005 and 2003.

3.136

CROWN HOLDINGS, INC. (DEC)

(In millions)	2005	2004	2003
Income/(loss) from continuing operations before income taxes, minority interests and equity earnings	$(314)	$104	$ 53
Provision/(benefit) for income taxes	(2)	61	71
Minority interests	(51)	(41)	(39)
Equity earnings/(loss)	12	14	(17)
Income/(loss) from continuing operations	(351)	16	(74)
Discontinued operations (Note B)			
Income before income taxes	23	56	66
Provision for income taxes	34	21	24
Income/(loss) from discontinued operations	(11)	35	42
Net income/(loss)	$(362)	$ 51	$(32)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

B. Discontinued Operations

On October 11, 2005, the Company completed the sale of its plastic closures business for total proceeds of $690, and recognized a loss of $44 related to the transaction. The assets sold included $50 of cash and the Company paid $13 in fees related to the sale, resulting in net proceeds of $627. The gross proceeds of $690 and the related loss exclude up to $20 of contingent consideration that, if earned based on the divested business achieving certain targets, will be payable in 2006 and 2008. The loss also excludes any other final purchase price adjustments related to working capital that may be made in the future and are currently under review. The divested business makes plastic closures for beverage, food and other consumer products.

The results of operations for the plastic closures business were reported within discontinued operations in the accompanying statements of operations, and prior period statements of operations have been recast. The segment results in Note Y and the Condensed Combining Statements of Operations in Note Z also reflect the reclassification of the plastic closures business to discontinued operations. The 2005 Consolidated Statement of Cash Flows does not separately report the cash flows of the discontinued operations and the Balance Sheets and Statements of Cash Flows for prior periods have not been recast. Interest expense was not allocated to the plastic closures business and, therefore, all of the Company's interest expense is included within continuing operations.

The plastic closures business was a separate operating segment of the Company.

The components of the income/(loss) from discontinued operations are presented below.

	2005	2004	2003
Income before tax	$ 50	$ 56	$ 66
Income tax on operations	(17)	(21)	(24)
Loss on disposal	(27)		
Income tax on disposal	(17)		
Income/(loss) from discontinued operations	$(11)	$ 35	$ 42

Adjustment of Gain/Loss Reported in Prior Period

3.137

EASTMAN KODAK COMPANY (DEC)

(In millions)	2005	2004	2003
(Loss) earnings from continuing operations before income taxes	$ (766)	$ (94)	$104
Provision (benefit) for income taxes	689	(175)	(85)
(Loss) earnings from continuing operations	(1,455)	81	189
Earnings from discontinued operations, net of income taxes	150	475	64
Loss from cumulative effect of accounting change, net of income taxes	(57)	—	—
Net (Loss) earnings	$(1,362)	$ 556	$253

NOTES TO FINANCIAL STATEMENTS

Note 22 (In Part): Discontinued Operations

The significant components of earnings from discontinued operations, net of income taxes, for 2005, 2004 and 2003 are as follows:

(Dollar amounts in millions)	2005	2004	2003
Remote Sensing Systems earnings, net of tax	$ —	$ 38	$39
(Loss) gain on sale of RSS, net of tax	(55)	439	—
Tax reserve reversals related to audit settlement for tax years 1993–1998	203	—	—
Tax reserve reversals related to repurchase of certain properties	—	—	15
All other items, net	2	(2)	10
Earnings from discontinued operations, net of income taxes	$150	$475	$64

2005

Earnings from discontinued operations for the year ended December 31, 2005 of approximately $150 million was due to the items discussed below.

During the fourth quarter of 2005, the Company was informed that the United States Congress Joint Committee on Taxation had approved, and the Internal Revenue Service had signed, a settlement between the Company and the Internal Revenue Service concerning the audit of the tax years 1993–1998. As a result of the settlement, the Company was able to reverse certain tax accruals relating to the aforementioned years under audit. The reversal of the tax accruals of approximately $203 million, which primarily relates to and which was established in 1994 in connection with the sale of Sterling Winthrop Inc., the Company's pharmaceutical, consumer health, and household products businesses during that year, was recognized in earnings from discontinued operations for the year ended December 31, 2005.

On August 13, 2004 the Company completed the sale of the assets and business of the Remote Sensing Systems operation, including the stock of Kodak's wholly owned subsidiary, Research Systems, Inc. (collectively known as RSS), to ITT Industries for $725 million in cash. As a result of the sale of RSS, the Company transferred the related employees' plan assets of the Company's pension plan. This transfer was subject to a true-up provision, which was completed in the fourth quarter of 2005 and resulted in a settlement loss of $54 million being recognized in earnings from discontinued operations for the year ended December 31, 2005.

The contract with ITT also included a provision under which Kodak could receive up to $35 million in cash (the "Cash Amount") from ITT depending on the amount of pension plan assets that were ultimately transferred from Kodak's defined benefit pension plan trust in the U.S. to ITT. The total amount of assets that Kodak transferred to ITT was actuarially determined in accordance with the applicable sections under the Treasury Regulations and ERISA (the "Transferred Assets"). The Cash Amount was equal to 50% of the amount by which the Transferred Assets exceed the maximum amount of assets that would be required to be transferred in accordance with the applicable U.S. Government Cost Accounting Standards (the "CAS Assets"), up to $35 million. Based on preliminary actuarial valuations, the estimated Cash Amount was approximately $30 million. Accordingly, the after-tax gain from the sale of RSS included an estimated pre-tax amount of $30 million, representing the Company's estimate of the Cash Amount that would be received following the transfer of the pension plan assets to ITT. This amount was recorded in assets of discontinued operations in the Company's Consolidated Statement of Financial Position as of December 31, 2004. The actual Cash Amount received during the fourth quarter of 2005 was approximately $29 million. Accordingly, the difference in the estimated Cash Amount and the actual Cash Amount received of approximately $1 million was recorded in earnings from discontinued operations for the year ended December 31, 2005.

• • • • • •

2003

During the three month period ended March 31, 2003, the Company repurchased certain properties that were initially sold in connection with the 1994 divestiture of Sterling Winthrop Inc., which represented a portion of the Company's non-imaging health businesses. The repurchase of these properties allows the Company to directly manage the environmental remediation that the Company is required to perform in connection with those properties, which will result in better overall cost control (see Note 11, "Commitments and Contingencies"). In addition, the repurchase eliminated the uncertainty regarding the recoverability of tax benefits associated with the indemnification payments that were previously being made to the purchaser. Accordingly, the Company reversed a tax reserve of approximately $15 million through earnings from discontinued operations in the accompanying Consolidated Statement of Operations for the twelve months ended December 31, 2003, which was previously established through discontinued operations.

During the three month period ended March 31, 2003, the Company received cash relating to the favorable outcome of litigation associated with the 1994 sale of Sterling Winthrop Inc. The related gain of $19 million was recognized in loss from discontinued operations in the Consolidated Statement of Operations for the year ended December 31, 2002. The cash receipt is reflected in the net cash provided by (used in) discontinued operations component in the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2003.

During the fourth quarter of 2003, the Company recorded a net of tax credit of $7 million through discontinued operations for the reversal of an environmental reserve, which was primarily attributable to positive developments in the Company's remediation efforts relating to a formerly owned manufacturing site in the U.S. In addition, during the fourth quarter of 2003, the Company reversed state income tax reserves of $3 million, net of tax, through discontinued operations due to the favorable outcome of tax audits in connection with a formerly owned business.

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

3.138 Table 3-17 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operations. An example of a charge/credit shown after the caption for income taxes applicable to income from continuing operations follows.

3.139 *APB No. 20* requires that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect on prior periods of changing to the new accounting principle. Under *APB No. 20*, financial statements for prior periods included for comparative purposes should be presented as previously reported. The amount of the cumulative effect and its related income tax effect should be shown in the income statement between the captions "extraordinary items" and "net income." Additionally, presentation of per-share amounts for the cumulative effect should be made either on the face of the income statement or in the related notes. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, *SFAS No. 154* replaces *APB No. 20*. *SFAS No. 154* changes the requirements for the accounting for and reporting of a change in accounting principle.

SFAS No. 154 requires, unless impracticable or otherwise specified by an applicable authoritative pronouncement, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective application is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, retrospective application involves the following:

a) Financial statements for each individual prior period presented shall be adjusted to reflect the period-specific effects of applying the new accounting principle.
b) The cumulative effect of the change on periods prior to those presented shall be reflected in the carrying amount of assets and liabilities as of the beginning of the first period presented.
c) An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate component of equity) for that period.

3.140

TABLE 3-17: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	2005	2004	2003	2002
Minority interest	110	103	101	95
Cumulative effect of accounting change	54	26	118	179
Equity in earnings or losses of investees	39	37	35	38
Distributions on trust preferred securities	—	1	5	4
Other	3	2	2	1

3.141

KIMBERLY-CLARK CORPORATION (DEC)

(Millions of dollars, except per share amounts)	2005	2004	2003
Income before income taxes, equity interests, discontinued operations and cumulative effect of accounting change	$1,968.9	$2,203.4	$2,076.3
Provision for income taxes	(438.4)	(483.9)	(484.1)
Share of net income of equity companies	136.6	124.8	107.0
Minority owners' share of subsidiaries' net income	(86.5)	(73.9)	(55.6)
Income from continuing operations	1,580.6	1,770.4	1,643.6
Income from discontinued operations, net of income taxes	—	29.8	50.6
Income before cumulative effect of accounting change	1,580.6	1,800.2	1,694.2
Cumulative effect of accounting change, net of income taxes	(12.3)	—	—
Net income	$1,568.3	$1,800.2	$1,694.2
Per share basis			
Basic			
Continuing operations	$ 3.33	$ 3.58	$ 3.24
Discontinued operations	—	.06	.10
Cumulative effect of accounting change	(.03)	—	—
Net income	$ 3.30	$ 3.64	$ 3.34
Diluted			
Continuing operations	$ 3.31	$ 3.55	$ 3.23
Discontinued operations	—	.06	.10
Cumulative effect of accounting change	(.03)	—	—
Net income	$ 3.28	$ 3.61	$ 3.33

EXTRAORDINARY ITEMS

3.142 APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *APB Opinion No. 30* and related AICPA Accounting Interpretation, *Reporting the Results of Operations,* illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in FASB *Accounting Standards—Current Text, Section I17, Income Statement Presentation: Extraordinary Items.* SFAS No. 4, *Reporting Gains and Losses From Extinguishment of Debt,* specifies that material debt extinguishment gains and losses be classified as extraordinary items. Under *SFAS No. 4,* all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Effective for fiscal years beginning after May 15, 2002, SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* rescinds *SFAS No. 4.* Since the issuance of *SFAS No. 4,* the use of debt extinguishment has become part of the risk management strategy of many companies. *SFAS No. 145* stipulates that only debt extinguishments, which meet the criteria in *APB Opinion No. 30* for classification as extraordinary items, are classified as extraordinary.

3.143 Table 3-18 shows the nature of items classified as extraordinary by the survey companies. An example of the presentation and disclosure of an extraordinary item follows.

3.144

TABLE 3-18: EXTRAORDINARY ITEMS

	2005	2004	2003	2002
Nature				
Debt extinguishments	—	—	4	40
Other	5	4	8	2
Total Extraordinary Items	**5**	**4**	**12**	**42**
Number of Companies				
Presenting extraordinary items	5	4	12	42
Not presenting extraordinary items	595	596	588	558
Total Companies	**600**	**600**	**600**	**600**

Negative Goodwill

3.145

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands, except per share data)	2005	2004	2003
Income before provision for income taxes	$174,315	$205,004	$118,578
Provision for income taxes	57,548	68,890	37,940
Income before extraordinary item	116,767	136,114	80,638
Extraordinary gain—negative goodwill	19,800	—	—
Net income	$136,567	$136,114	$ 80,638
Earnings per share data			
Weighted average shares outstanding	51,472	45,286	43,279
Income before extraordinary item	$ 2.27	$ 3.01	$ 1.86
Extraordinary gain	.38	—	—
Basic earnings per share	$ 2.65	$ 3.01	$ 1.86
Diluted average shares outstanding	51,954	50,680	48,959
Income before extraordinary item	$ 2.25	$ 2.77	$ 1.74
Extraordinary gain	.38	—	—
Diluted earnings per share	$ 2.63	$ 2.77	$ 1.74

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions

On February 11, 2005, Briggs & Stratton Corporation and its subsidiaries, Briggs & Stratton Power Products Group, LLC and Briggs & Stratton Canada, Inc. acquired certain assets of Murray, Inc. and Murray Canada Co. (collectively "Murray") and entered into a transition supply agreement ("TSA"). The TSA gives Briggs & Stratton the right to purchase finished lawn, garden and snow products from Murray for a period up to eighteen months. Briggs & Stratton has reached an agreement with Murray to end the TSA effective September 30, 2005. The cash purchase price was $122.7 million, including direct acquisition costs of $1.8 million. Briggs & Stratton financed the acquisition through the issuance of $125 million variable rate Term Notes due February 11, 2008, with no prepayment penalty. The Term Notes have financial and operating restrictions consistent with other debt agreements. Although no liabilities were assumed pursuant to the asset purchase agreement, there are certain consumer and customer related obligations incident to the acquisition that have been considered. In addition, there were certain obligations created by the TSA that have been considered in purchase accounting.

The Murray acquisition has been accounted for using the purchase method of accounting. The purchase price was allocated on a preliminary basis to identifiable assets acquired and liabilities recognized (as discussed above) based upon their estimated fair values. The estimated fair value of Murray assets acquired exceeded the acquisition cost by $19.8 million, after all tax considerations, and this amount was recognized as an extraordinary gain. Final adjustments to the purchase price allocation are not expected to be material to the consolidated financial statements.

The following table summarizes the fair value of the assets acquired, liabilities assumed and extraordinary gain recognized at the date of acquisition (in thousands):

Assets acquired	
Accounts receivable, net	$ 78,851
Inventory, net	83,286
Deferred tax asset	3,263
Total assets	165,400
Liabilities recognized	
Federal and state taxes payable	13,015
Rebates	4,241
Warranty	1,850
TSA obligations	3,810
Total liabilities	22,916
Net assets	142,484
Cash paid	122,684
Extraordinary gain	$ 19,800

Subsequent to fiscal year 2005, Briggs & Stratton received a refund of $6.3 million of its purchase price for receivables identified as uncollectible. All remaining acquired receivables, net, have been collected.

EARNINGS PER SHARE

3.146 The reporting and disclosure requirements for earnings per share are stated in SFAS No. 128, *Earnings Per Share*, paragraphs 36–42. Examples of earnings per share presentations follow.

3.147

FORTUNE BRANDS, INC. (DEC)

(In millions, except per share amounts)	2005	2004	2003
Income from continuing operations	$581.6	$716.0	$552.1
Income from discontinued operations, net of tax	39.5	67.8	27.1
Net income	$621.1	$783.8	$579.2
Earnings per common share			
Basic			
Continuing operations	$ 3.99	$ 4.93	$ 3.78
Discontinued operations	0.27	0.47	0.19
Net earnings	$ 4.26	$ 5.40	$3.97
Diluted			
Continuing operations	$ 3.87	$ 4.78	$ 3.68
Discontinued operations	0.26	0.45	0.18
Net earnings	$ 4.13	$ 5.23	$ 3.86
Dividends paid per common share	$ 1.38	$ 1.26	$ 1.14
Average number of common shares outstanding			
Basic	145.6	145.1	145.6
Diluted	150.5	149.9	150.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Earnings Per Share

Basic earnings per common share are based on the weighted-average number of common shares outstanding in each year and after preferred stock dividend requirements. Diluted earnings per common share assume that any dilutive convertible debentures and convertible preferred shares outstanding at the beginning of each year were converted at those dates, with related interest, preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds exercise price, less shares that could have been purchased by the Company with related proceeds.

The computation of basic and diluted earnings per common share for "Net income" is as follows:

(In millions, except per share amounts)	2005	2004	2003
Income from continuing operations	$581.6	$716.0	$552.1
Income from discontinued operations	39.5	67.8	27.1
Net income	621.1	783.8	579.2
Less: preferred stock dividends	0.6	0.6	0.7
Income available to common stockholders—basic	620.5	783.2	578.5
Convertible preferred stock dividend requirements	0.6	0.6	0.7
Income available to common stockholders—diluted	$621.1	$783.8	$579.2
Weighted average number of common shares outstanding—basic	145.6	145.1	145.6
Conversion of convertible preferred stock	1.5	1.5	1.6
Exercise of stock options	3.4	3.3	3.1
Weighted average number of common shares outstanding—diluted	150.5	149.9	150.3
Earnings per common share			
Basic			
Continuing operations	$ 3.99	$ 4.93	$ 3.78
Discontinued operations	0.27	0.47	0.19
Net earnings per basic share	$ 4.26	$ 5.40	$ 3.97
Diluted			
Continuing operations	$ 3.87	$ 4.78	$ 3.68
Discontinued operations	0.26	0.45	0.18
Net earnings per diluted share	$ 4.13	$ 5.23	$ 3.86

There were no shares that were antidilutive and not included in average shares outstanding for the diluted earnings per share calculation.

3.148

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

(Dollars in millions except per share amounts)	Notes	2005	2004	2003
Income from continuing operations		$7,994	$7,497	$6,588
Discontinued operations				
Loss from discontinued operations, net of tax		(24)	(18)	(30)
Income before cumulative effect of change in accounting principle		7,970	7,479	6,558
Cumulative effect of change in accounting principle, net of tax**	B	(36)	—	—
Net income		$7,934	$7,479	$6,558
Earnings/(loss) per share of common stock				
Assuming dilution				
Continuing operations	S	$ 4.91	$ 4.39	$ 3.76
Discontinued operations	S	(0.01)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	S	4.90	4.38	3.74
Cumulative effect of change in accounting principle**	S	(0.02)	—	—
Total	S	$ 4.87*	$ 4.38	$ 3.74
Basic				
Continuing operations	S	$ 4.99	$ 4.48	$ 3.83
Discontinued operations	S	(0.02)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	S	4.98*	4.47	3.81
Cumulative effect of change in accounting principle**	S	(0.02)	—	—
Total	S	$ 4.96	$ 4.47	$ 3.81
Weighted-average number of common shares outstanding				
Assuming dilution		1,627,632,662	1,707,231,708	1,752,847,742
Basic		1,600,591,264	1,674,959,086	1,721,588,628

(*) Does not total due to rounding.
(**) Reflects implementation of FASB Interpretation No. 47.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Earnings Per Share of Common Stock

Earnings per share of common stock basic is computed by dividing Net income by the weighted average number of common shares outstanding for the period. Earnings per share of common stock, assuming dilution, reflects the maximum potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and would then share in the net income of the company. See note S, "Earnings Per Share of Common Stock" for additional information.

S. Earnings Per Share of Common Stock

The following table sets forth the computation of basic and diluted earnings per share of common stock:

(Dollars in millions except per share amounts)	2005	2004	2003
Weighted-average number of shares on which earnings per share calculations are based:			
Basic	1,600,591,264	1,674,959,086	1,721,588,628
Add—incremental shares under stock compensation plans	23,204,175	26,905,053	26,156,340
Add—incremental shares associated with convertible notes	3,791,228	4,273,541	4,695,956
Add—incremental shares associated with contingently issuable shares	45,995	1,094,028	406,818
Assuming dilution	1,627,632,662	1,707,231,708	1,752,847,742
Basic			
Income from continuing operations	$7,994	$7,497	$6,588
Loss from discontinued operations	(24)	(18)	(30)
Cumulative effect of change in accounting principle**	(36)	—	—
Net income from total operations on which basic earnings per share is calculated	$7,934	$7,479	$6,558
Assuming dilution			
Income from continuing operations	$7,994	$7,497	$6,588
Net loss applicable to contingently issuable shares liability	(2)	—	—
Loss from discontinued operations	(24)	(18)	(30)
Cumulative effect of change in accounting principle**	(36)	—	—
Net income from total operations on which diluted earnings per share is calculated	$7,932	$7,479	$6,558
Earnings/(loss) per share of common stock			
Assuming dilution			
Continuing operations	$ 4.91	$ 4.39	$ 3.76
Discontinued operations	(0.01)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	4.90	4.38	3.74
Cumulative effect of change in accounting principle**	(0.02)	—	—
Total	$ 4.87	$ 4.38	$ 3.74
Basic			
Continuing operations	$ 4.99	$ 4.48	$ 3.83
Discontinued operations	(0.02)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	4.98*	4.47	3.81
Cumulative effect of change in accounting principle**	(0.02)	—	—
Total	$ 4.96	$ 4.47	$ 3.81

(*) Does not total due to rounding.
(**) Reflects implementation of FASB Interpretation No. 47.

Stock options to purchase 165,615,293 common shares in 2005, 133,220,730 common shares in 2004 and 124,840,510 common shares in 2003 were outstanding, but were not-included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares for the full year and, therefore, the effect would have been antidilutive.

3.149

THE NEW YORK TIMES COMPANY (DEC)

(In thousands, except per share data)	2005	2004	2003
Income from continuing operations	$265,605	$292,557	$302,655
Cumulative effect of a change in accounting principle, net of income taxes	(5,852)	—	—
Net income	$259,753	$292,557	$302,655
Average number of common shares outstanding			
Basic	145,440	147,567	150,285
Diluted	145,877	149,357	152,840
Basic earnings per share			
Income from continuing operations	$ 1.83	$ 1.98	$ 2.01
Cumulative effect of a change in accounting principle, net of income taxes	(0.04)	—	—
Net Income	$ 1.79	$ 1.98	$ 2.01
Diluted earnings per share			
Income from continuing operations	$ 1.82	$ 1.96	$ 1.98
Cumulative effect of a change in accounting principle, net of income taxes	(0.04)	—	—
Net Income	$ 1.78	$ 1.96	$ 1.98
Dividends per share	$ .65	$ .61	$ .57

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Share

The Company calculates earnings per share in accordance with FAS No. 128, Earnings Per Share. Basic earnings per share is calculated by dividing net earnings available to common shares by average common shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of securities, including the effect of shares issuable under the Company's stock-based incentive plans.

All references to earnings per share are on a diluted basis unless otherwise noted.

13. Earnings Per Share

Basic and diluted earnings per share were as follows:

(In thousands, except per share data)	2005	2004	2003
Basic earnings per share computation			
Numerator			
Income from continuing operations	$265,605	$292,557	$302,655
Cumulative effect of a change in accounting principle, net of income taxes	(5,852)	—	—
Net income	$259,753	$292,557	$302,655
Denominator			
Average number of common shares outstanding	145,440	147,567	150,285
Income from continuing operations	$ 1.83	$ 1.98	$ 2.01
Cumulative effect of a change in accounting principle, net of income taxes	(0.04)	—	—
Net income	$ 1.79	$ 1.98	$ 2.01
Diluted earnings per share computation			
Numerator			
Income from continuing operations	$265,605	$292,557	$302,655
Cumulative effect of a change in accounting principle, net of income taxes	(5,852)	—	—
Net income	$259,753	$292,557	$302,655
Denominator			
Average number of common shares outstanding	145,440	147,567	150,285
Incremental shares for assumed exercise of securities	437	1,790	2,555
Total shares	145,877	149,357	152,840
Income from continuing operations	$ 1.82	$ 1.96	$ 1.98
Cumulative effect of a change in accounting principle, net of income taxes	(0.04)	—	—
Net Income	$ 1.78	$ 1.96	$ 1.98

The difference between basic and diluted shares is primarily due to the assumed exercise of stock options included in the diluted earnings per share computation.

Stock options with exercise prices that exceeded the fair market value of the Company's common stock had an antidilutive effect and, therefore, were excluded from the computation of diluted earnings per share. Approximately 27 million stock options with exercise prices ranging from $32.89 to $48.54 were excluded from the computation in 2005. Approximately 13 million stock options with exercise prices ranging from $44.23 to $48.54 were excluded from the computation in 2004. Approximately 10 million stock options with exercise prices ranging from of $46.02 to $47.25 were excluded from the computation in 2003.

3.150

QUANEX CORPORATION (OCT)

(In thousands, except per share amounts)	2005	2004	2003
Income from continuing operations	$177,233	$57,428	$43,646
Income (loss) from discontinued operations, net of taxes	(22,073)	(2,961)	(759)
Net income	$155,160	$54,467	$42,887
Basic earnings per common share			
Earnings from continuing operations	$ 7.04	$ 2.33	$ 1.80
Income (loss) from discontinued operations	(0.88)	(0.12)	(0.03)
Basic earnings per share	$ 6.16	$ 2.21	$1.77
Diluted earning per common share			
Earnings from continuing operations	$ 6.75	$ 2.29	$ 1.78
Income (loss) from discontinued operations	(0.83)	(0.12)	(0.03)
Diluted earnings per share	$ 5.92	$ 2.17	$ 1.75
Weighted average common shares outstanding			
Basic	25,181	24,654	24,231
Diluted	26,539	25,047	24,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Critical Accounting Policies

Earnings per Share Data

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

5. Earnings Per Share

The computational components of basic and diluted earnings per share from continuing operations are as follows (shares and dollars in thousands except per share amounts):

	Numerator (Income)	Denominator (Shares)	Per Share Amount
2005			
Basic earnings per share	$177,233	25,181	$7.04
Effect of dilutive securities			
Effect of common stock equivalents arising from settlement of contingent convertible debentures	1,953	884	
Effect of common stock equivalents arising from stock options	—	387	
Effect of common stock held by rabbi trust	—	87	
Diluted earnings per share	$179,186	26,539	$6.75
2004			
Basic earnings per share	$ 57,428	24,654	$2.33
Effect of dilutive securities			
Effect of common stock equivalents arising from stock options	—	311	
Effect of common stock held by rabbi trust	—	82	
Diluted earnings per share	$ 57,428	25,047	$2.29
2003			
Basic earnings per share	$ 43,646	24,231	$1.80
Effect of dilutive securities:			
Effect of common stock equivalents arising from stock options	—	249	
Effect of common stock held by rabbi trust	—	96	
Diluted earnings per share	$ 43,646	24,576	$1.78

In May 2004, the Company issued $125.0 million of 2.50% Convertible Senior Debentures due 2034 (the Debentures) that, if converted in the future, would have a potentially dilutive effect on the Company's stock. On January 26, 2005, the Company announced that it had irrevocably elected to settle the principal amount of the Debentures in cash when they become convertible and are surrendered by the holders thereof. The Company retains its option to satisfy any premium obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. On January 31, 2005, the Company adopted the consensus reached by Emerging Issues Task Force Issue 04-8 (EITF 04-8) which requires that the Company include in diluted earnings per share all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price. As a result of the Company's election, diluted earnings per share include only the amount of shares it would take to satisfy the premium obligation, assuming that all of the Debentures were surrendered. For calculation purposes, the average closing price of the Company's common stock for each of the periods presented is used as the basis for determining dilution. For fiscal 2004 the Debentures are anti-dilutive as the conversion price was above the Company's average closing price for the year.

3.151

THERMO ELECTRON CORPORATION (DEC)

(In thousands except per share amounts)	2005	2004	2003
Income from continuing operations	$198,301	$218,367	$175,210
Income (loss) from discontinued operations (includes income tax benefit of $36,321 and $1,485 in 2004 and 2003)	—	43,018	(2,513)
Gain on disposal of discontinued operations, net (net of income tax provision of $16,341 and $8,141 in 2005 and 2003; includes income tax benefit of $36,728 in 2004)	24,917	100,452	27,312
Net income	$223,218	$361,837	$200,009
Earnings per share from continuing operations (Note 7)			
Basic	$ 1.23	$ 1.34	$ 1.08
Diluted	$ 1.21	$ 1.31	$ 1.05
Earnings per share (Note 7)			
Basic	$ 1.38	$ 2.22	$ 1.23
Diluted	$ 1.36	$ 2.17	$ 1.20
Weighted average shares (Note 7)			
Basic	161,587	163,133	162,713
Diluted	165,334	167,641	170,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Earnings Per Share

Basic earnings per share has been computed by dividing net income by the weighted average number of shares outstanding during the year. Except where the result would be antidilutive to income from continuing operations, diluted earnings per share has been computed assuming the conversion of convertible obligations and the elimination of the related interest expense, and the exercise of stock options, as well as their related income tax effects (Note 7).

Note 7. Earnings Per Share

(In thousands except per share amounts)	2005	2004	2003
Income from continuing operations	$198,301	$218,367	$175,210
Income (loss) from discontinued operations	—	43,018	(2,513)
Gain on disposal of discontinued operations, net	24,917	100,452	27,312
Net Income for basic earnings per share	223,218	361,837	200,009
Effect of convertible debentures	1,606	1,606	4,830
Income available to common shareholders, as adjusted for diluted earnings per share	$224,824	$363,443	$204,839
Basic weighted average shares	161,587	163,133	162,713
Effect of:			
Convertible debentures	1,846	1,846	5,737
Stock options	1,847	2,571	2,085
Restricted stock awards and contingently issuable shares	54	91	195
Diluted weighted average shares	165,334	167,641	170,730
Basic earnings per share			
Continuing operations	$ 1.23	$ 1.34	$ 1.08
Discontinued operations	.15	.88	.15
	$ 1.38	$ 2.22	$ 1.23
Diluted earnings per share			
Continuing operations	$ 1.21	$ 1.31	$ 1.05
Discontinued operations	.15	.86	.15
	$ 1.36	$ 2.17	$ 1.20

Options to purchase 1,391,000, 1,078,000 and 6,678,000 shares of common stock were not included in the computation of diluted earnings per share for 2005, 2004 and 2003, respectively, because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

The computation of diluted earnings per share for 2003 excludes the effect of assuming the conversion of the company's 4 3/8% subordinated convertible debentures convertible at $111.83 per share because the effect would be antidilutive. These debentures were no longer outstanding as of December 31, 2003, having previously been redeemed.

Section 4: Comprehensive Income

PRESENTATION IN ANNUAL REPORT

4.01 Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that a full set of general-purpose financial statements report comprehensive income and its components. Comprehensive income includes net income, foreign currency items, minimum pension liability adjustments, changes in the fair value of certain derivatives, and unrealized gains and losses on certain investments in debt and equity securities. If an entity has only net income, it is not required to report comprehensive income. *SFAS No. 130* encourages reporting comprehensive income in either a combined statement of income and comprehensive income or in a separate statement of comprehensive income.

4.02 *SFAS No. 130* also states that an enterprise shall disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments), either on the face of the statement in which those components are displayed or in the notes thereto.

4.03 Table 4-1 shows the statement in which comprehensive income and the related tax effect was presented.

4.04

TABLE 4-1: COMPREHENSIVE INCOME—REPORTING STATEMENT

	2005	2004	2003	2002
Reporting format:				
Included in statement of changes in stockholders' equity	478	485	488	469
Separate statement of comprehensive income	77	68	69	68
Combined statement of income and comprehensive income	24	22	23	25
	579	**575**	**580**	**562**
No comprehensive income reported	21	25	20	38
Total Companies	**600**	**600**	**600**	**600**
Tax effect disclosure in any statement:				
Amount of tax effect allocated to each component	119	89	89	73
Amount of tax effect allocated to some, but not all, components	114	137	111	114
Total amount of tax effect	15	11	16	16
	248	**237**	**216**	**203**
Tax effect disclosure in notes:				
Amount of tax effect allocated to each component	75	68	75	66
Amount of tax effect allocated to some, but not all, components	62	65	71	67
Total amount of tax effect	11	9	16	29
	148	**142**	**162**	**162**
Tax effect not disclosed in any statement	183	196	202	197
	579	**575**	**580**	**562**
No comprehensive income reported	21	25	20	38
Total Companies	**600**	**600**	**600**	**600**

4.05 Table 4-2 summarizes the titles used to describe comprehensive income.

4.06 Examples of comprehensive income reported in a statement of changes in stockholders' equity, in a separate statement of comprehensive income, and in a combined statement of income and comprehensive income follow.

4.07

TABLE 4-2: COMPREHENSIVE INCOME—REPORTING STATEMENT TITLE

	2005	2004	2003	2002
Comprehensive income reported in a statement of income and comprehensive income, or in a statement of comprehensive income				
Comprehensive income	71	56	59	46
Comprehensive income (loss)	21	23	26	27
Comprehensive loss	3	4	3	7
Comprehensive earnings	2	1	1	2
Other title	4	6	3	11
	101	**90**	**92**	**93**
Comprehensive income reported in a statement of changes in stockholders' equity				
Statement title does not refer to comprehensive income	394	398	406	395
Statement title does refer to comprehensive income	84	87	82	74
	478	**485**	**488**	**469**
No comprehensive income reported	21	25	20	38
Total Companies	**600**	**600**	**600**	**600**

Included in Statement of Changes in Stockholders' Equity

4.08

CBS CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

	2005		2004		2003	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Class A common stock						
Balance, beginning of year	66.7	$ 1.3	66.8	$ 1.3	68.7	$ 1.4
Conversion of A shares into B shares	—	—	(.1)	—	(1.9)	(.1)
Retirement of treasury stock	(1.0)	—	—	—	—	—
Change in par value to $.001	—	(1.2)	—	—	—	—
Balance, end of year	65.7	.1	66.7	1.3	66.8	1.3
Class B common stock						
Balance, beginning of year	868.9	17.4	865.4	17.3	858.0	17.1
Exercise of stock options	8.4	.2	3.4	.1	5.5	.1
Conversion of A shares into B shares	—	—	.1	—	1.9	.1
Retirement of treasury stock	(182.3)	(3.7)	—	—	—	—
Change in par value to $.001	—	(13.2)	—	—	—	—
Balance, end of year	695.0	.7	868.9	17.4	865.4	17.3
Additional paid-in capital						
Balance, beginning of year		66,027.7		65,840.3		65,597.8
Exercise of stock options, including tax benefit		423.9		170.5		322.6
Vesting of restricted stock units		31.8		—		—
Retirement of treasury stock		(14,021.8)		—		—
Dividends		(440.9)		—		—
Change in par value to $.001		14.4		—		—
Spin-off of New Viacom		(7,730.7)		—		—
Adjustments for stock options and share issuances from prior acquisitions		—		20.7		—
Reversal of deferred taxes attributable to accelerated stock options from prior acquisitions		—		(3.8)		(66.0)
Reduction of equity interest in subsidiary and affiliated companies		—		—		(14.1)
Balance, end of year		44,304.4		66,027.7		65,840.3
Retained earnings (deficit)						
Balance, beginning of year		(14,747.3)		3,141.9		1,934.0
Net earnings (loss)		(7,089.1)		(17,462.2)		1,416.9
Dividends		—		(427.0)		(209.0)
Balance, end of year		(21,836.4)		(14,747.3)		3,141.9
Accumulated other comprehensive income (loss):						
Balance, beginning of year		(356.0)		(351.2)		(580.5)
Other comprehensive income (loss)		(41.5)		(4.8)		229.3
Balance, end of year		(397.5)		(356.0)		(351.2)
Treasury stock, at cost:						
Balance, beginning of year	112.9	(8,918.8)	64.9	(5,444.6)	53.3	(4,482.0)
Class B common stock purchased	79.6	(5,456.2)	34.2	(2,529.7)	11.8	(981.4)
Stock received for Blockbuster split-off	—	—	14.0	(963.0)	—	—
Issuance of stock for deferred compensation	(.2)	15.2	(.2)	18.5	(.2)	18.8
Retirement of treasury stock	(183.3)	14,025.5	—	—	—	—
Balance, end of year	9.0	(334.3)	112.9	(8,918.8)	64.9)	(5,444.6)
Total stockholders' equity		$ 21,737.0		$ 42,024.3		$63,205.0

(continued)

	2005		2004		2003	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Comprehensive income (loss):						
Net earnings (loss)		$(7,089.1)		$(17,462.2)		$ 1,416.9
Other comprehensive income (loss) from continuing operations, net of tax:						
Minimum pension liability adjustment		(96.1)		(105.7)		42.6
Cumulative translation adjustments		54.7		71.2		64.7
Change in fair value of cash flow hedges		—		(.5)		(2.1)
Unrealized gain (loss) on securities		(22.4)		19.8		1.2
Reclassification adjustment for net realized (gains) losses		22.3		(18.1)		5.7
Total other comprehensive income (loss) from continuing operations, net of tax		(41.5)		(33.3)		112.1
Other comprehensive income from discontinued operations, net of tax		—		28.5		117.2
Total other comprehensive income (loss), net of tax		(41.5)		(4.8)		229.3
Total comprehensive income (loss)		$(7,130.6)		$(17,467.0)		$ 1,646.2

4.09

SUPERVALU INC. (FEB)

Consolidated Statements of Stockholders' Equity

(In thousands, except per share data)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Losses	Retained Earnings	Total
Balances at February 23, 2002	150,670	$150,670	$121,444	(17,781)	$(335,885)	$ (7,075)	$1,969,984	$1,899,138
Net earnings	—	—	—	—	—	—	257,042	257,042
Other comprehensive loss	—	—	—	—	—	(71,988)	—	(71,988)
Sales of common stock under option plans	—	—	(9,196)	2,155	47,618	—	—	38,422
Cash dividends declared on common stock $0.5675 per share	—	—	—	—	—	—	(76,094)	(76,094)
Compensation under employee incentive plans	—	—	1,780	152	3,099	—	—	4,879
Purchase of shares for treasury	—	—	—	(1,508)	(42,159)	—	—	(42,159)
Balances at February 22, 2003	150,670	150,670	114,028	(16,982)	(327,327)	(79,063)	2,150,932	2,009,240
Net earnings	—	—	—	—	—	—	280,138	280,138
Other comprehensive loss	—	—	—	—	—	(19,669)	—	(19,669)
Sales of common stock under option plans	—	—	(11,047)	1,596	41,508	—	—	30,461
Cash dividends declared on common stock $0.5775 per share	—	—	—	—	—	—	(77,495)	(77,495)
Compensation under employee incentive plans	—	—	(6,29)	93	2,127	—	—	1,498
Purchase of shares for treasury	—	—	—	(617)	(14,599)	—	—	(14,599)
Balances at February 28, 2004	150,670	150,670	102,352	(15,910)	298,291	(98,732)	2,353,575	2,209,574
Net earnings	—	—	—	—	—	—	385,823	385,823
Other comprehensive loss	—	—	—	—	—	(5,849)	—	(5,849)
Sales of common stock under option plans	—	—	12,522	2,646	44,143	—	—	56,665
Cash dividends declared on common stock $0.6025 per share	—	—	—	—	—	—	(81,386)	(81,386)
Compensation under employee incentive plans	—	—	1,173	49	520	—	—	1,693
Purchase of shares for treasury	—	—	—	(1,977)	(55,959)	—	—	(55,959)
Balances at February 26, 2005	150,670	$150,670	$116,047	(15,192)	$(309,587)	$ (104,581)	$2,658,012	$2,510,561

	2005	2004	2003
Comprehensive income			
Net earnings	$ 385,823	$ 280,138	$ 257,042
Derivative financial instrument—unrealized loss, net of tax of $42 million in 2004 and $0.2 million in 2003	—	6,735	340
Minimum pension liability, net of tax of $(2.5) million in 2005, $17.1 million in 2004, and $47.1 million in 2003	(5,849)	(26,404)	(72,328)
Comprehensive income	$ 379,974	$ 260,469	$ 185,054

4.10

TELEFLEX INCORPORATED (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(Dollars and shares in thousands, except per share)	Common Stock Shares	Common Stock Dollars	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Dollars	Total
Balance at December 29, 2002	39,399	$39,399	$112,346	$786,674		$(26,034)	1	$ (104)	$ 912,281
Net income				109,103	$109,103				109,103
Cash dividends ($0.78 per share)				(30,881)					(30,881)
Financial instruments marked to market					2,965	2,965			2,965
Cumulative translation adjustment					57,946	57,946			57,946
Minimum pension liability adjustment, net of tax of $1,624					(2,651)	(2,651)			(2,651)
Comprehensive income					$167,363				
Shares issued under compensation plans	418	418	14,075				21	(954)	13,539
Balance at December 28, 2003	39,817	$39,817	$126,421	$864,896		$ 32,226	22	$ (1,058)	$1,062,302
Net income				9,517	$ 9,517				9,517
Cash dividends ($0.86 per share)				(34,575)					(34,575)
Financial instruments marked to market					(382)	(382)			(382)
Cumulative translation adjustment					32,127	32,127			32,127
Minimum pension liability adjustment, net of tax of $5,668					(6,363)	(6,363)			(6,363)
Comprehensive income					$ 34,899				
Shares issued under compensation plans	633	633	46,592				4	(118)	47,107
Balance at December 26, 2004	40,450	$40,450	$173,013	$839,838		$ 57,608	26	$ (1,176)	$1,109,733
Net income				138,817	$138,817				138,817
Cash dividends ($0.97 per share)				(39,320)					(39,320)
Financial instruments marked to market, net of tax of $1,213					(944)	(944)			(944)
Cumulative translation adjustment					(47,076)	(47,076)			(47,076)
Minimum pension liability adjustment, net of tax of $375					(2,974)	(2,974)			(2,974)
Comprehensive income					$ 87,823				
Shares issued under compensation plans	673	673	31,537				(32)	1,376	33,586
Deferred compensation							82	(3,230)	(3,230)
Purchases of treasury stock							690	(46,518)	(46,518)
Balance at December 25, 2005	41,123	$41,123	$204,550	$939,335		$ 6,614	766	$(49,548)	$1,142,074

Separate Statement of Comprehensive Income

4.11

EL PASO CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	2005	2004	2003
Net loss	$(606)	$(947)	$(1,883)
Foreign currency translation adjustments (net of income tax of $4 in 2005, $(38) in 2004 and $51 in 2003)	(9)	11	108
Minimum pension liability accrual (net of income tax of $2 in 2005, $11 in 2004 and $7 in 2003)	(3)	(22)	11
Net gains (losses) from cash flow hedging activities			
Unrealized mark-to-market gains (losses) arising during period (net of income tax of $229 in 2005, $8 in 2004 and $50 in 2003)	(415)	22	101
Reclassification adjustments for changes in initial value to settlement date (net of income tax of $46 in 2005, $8 in 2004 and $11 in 2003)	79	30	(25)
Change in unrealized gains on available for sale securities (net of income tax of $9 in 2005)	15	—	—
Other comprehensive income (loss)	(333)	41	195
Comprehensive loss	$(939)	$(906)	$(1,688)

4.12

VF CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2005	2004	2003
Net income	$506,702	$474,702	$397,933
Other comprehensive income (loss)			
Foreign currency translation			
Amount arising during year	(66,765)	61,716	89,000
Less income tax effect	26,132	(31,647)	(40,157)
Minimum pension liability adjustment			
Amount arising during year	(38,488)	65,969	(52,691)
Less income tax effect	14,434	(24,257)	20,335
Derivative financial instruments			
Amount arising during year	23,196	(9,808)	(14,473)
Less income tax effect	(8,927)	3,758	5,529
Reclassification to net income for (gains) losses realized	(2,979)	8,687	15,798
Less income tax effect	1,147	(3,328)	(6,035)
Unrealized gains and losses on marketable securities			
Amount arising during year	855	9,808	13,730
Less income tax effect	(336)	(3,842)	(5,369)
Reclassification to net income for (gains) realized	—	(1,105)	(1,613)
Less income tax effect	—	433	632
Comprehensive income	$454,971	$551,086	$422,619

Combined Statement of Net Income and Comprehensive Income

4.13

ARDEN GROUP, INC. (DEC)

Consolidated Statements of Operations and Comprehensive Income

(In thousands)	2005	2004	2003
Sales	$470,354	$502,898	$486,378
Cost of sales	255,989	277,485	270,658
Gross profit	214,365	225,413	215,720
Delivery, selling, general and administrative expenses	182,549	190,834	190,262
Operating income	31,816	34,579	25,458
Interest and dividend income	1,722	1,986	1,768
Other income (expense), net	36	1,787	950
Interest expense	(152)	(182)	(272)
Income before income taxes	33,422	38,170	27,904
Income tax provision	13,571	15,498	11,323
Net income	$ 19,851	$ 22,672	$ 16,581
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) from available-for-sale securities			
Net unrealized holding gain (loss) arising during the period	(381)	(161)	568
Reclassification adjustment for realized gain included in net income	(11)	(86)	(454)
Net unrealized gain (loss), net of income tax expense (benefit) of ($269) for 2005, ($169) for 2004 and $78 for 2003	(392)	(247)	114
Comprehensive income	$ 19,459	$ 22,425	$ 16,695

4.14

BMC SOFTWARE, INC. (MAR)

Consolidated Statement of Operations and Comprehensive Income (Loss)

(In millions)	2003	2004	2005
Revenues			
License	$ 605.7	$ 577.4	$ 546.5
Maintenance	635.8	756.4	824.3
Professional services	85.2	84.9	92.2
Total revenues	1,326.7	1,418.7	1,463.0
Cost of license revenues	164.0	169.5	130.3
Cost of maintenance revenues	170.9	210.3	184.7
Cost of professional services	86.8	79.2	91.8
Selling and marketing expenses	499.4	610.2	557.7
Research and development expenses	215.8	259.5	222.5
General and administrative expenses	143.9	174.6	213.1
Amortization of intangible assets	12.7	13.3	20.7
Acquired research and development	12.0	1.0	4.0
Impairment of goodwill	—	—	3.7
Settlement of litigation	—	—	11.3
Total operating expenses	1,305.5	1,517.6	1,439.8
Operating income (loss)	21.2	(98.9)	23.2
Interest and other income, net	65.4	72.9	79.6
Interest expense	—	(1.1)	(2.0)
Gain (loss) on marketable securities and other investments	(17.3)	(2.3)	(2.6)
Other income, net	48.1	69.5	75.0
Earnings (loss) before income taxes	69.3	(29.4)	98.2
Income tax provision (benefit)	21.3	(2.6)	22.9
Net earnings (loss)	$ 48.0	$ (26.8)	$ 75.3
Basic earnings (loss) per share	$ 0.20	$ (0.12)	$ 0.34
Diluted earnings (loss) per share	$ 0.20	$ (0.12)	$ 0.34
Shares used in computing basic earnings (loss) per share	236.9	226.7	222.0
Shares used in computing diluted earnings (loss) per share	237.9	226.7	224.0
Comprehensive income (loss)			
Net earnings (loss)	$ 48.0	$ (26.8)	$ 75.3
Foreign currency translation adjustment	(6.0)	1.1	6.8
Unrealized gain (loss) on securities available for sale			
Unrealized gain (loss), net of taxes of $7.3, $1.8 and $6.6	13.5	(3.4)	(12.3)
Realized (gain) loss included in net earnings (loss), net of taxes of $2.7, $0.4 and $0.6	4.9	(0.7)	1.0
	18.4	(4.1)	(11.3)
Unrealized gain (loss) on derivative instruments			
Unrealized gain (loss), net of taxes of $2.7, $0 and $1.0	(5.0)	(5.2)	(1.9)
Realized (gain) loss included in net earnings (loss), net of taxes of $2.0, $0 and $1.2	3.7	5.2	2.2
	(1.3)	—	0.3
Comprehensive income (loss)	$ 59.1	$ (29.8)	$ 71.1

TAX EFFECT DISCLOSURE

4.15

THE COCA-COLA COMPANY (DEC)

Consolidated Statements of Shareowners' Equity

(In millions)	2005	2004	2003
Number of common shares outstanding			
Balance at beginning of year	2,409	2,442	2,471
Stock issued to employees exercising stock options	7	5	4
Purchases of stock for treasury[1]	(47)	(38)	(33)
Balance at end of year	2,369	2,409	2,442
Common stock			
Balance at beginning of year	$ 875	$ 874	$ 873
Stock issued to employees exercising stock options	2	1	1
Balance at end of year	877	875	874
Capital surplus			
Balance at beginning of year	4,928	4,395	3,857
Stock issued to employees exercising stock options	229	175	105
Tax benefit from employees' stock option and restricted stock plans	11	13	11
Stock-based compensation	324	345	422
Balance at end of year	5,492	4,928	4,395
Reinvested earnings			
Balance at beginning of year	29,105	26,687	24,506
Net income	4,872	4,847	4,347
Dividends (per share—$1.12, $1.00 and $0.88 in 2005, 2004 and 2003, respectively)	(2,678)	(2,429)	(2,166)
Balance at end of year	31,299	29,105	26,687
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(1,348)	(1,995)	(3,047)
Net foreign currency translation adjustment	(396)	665	921
Net gain (loss) on derivatives	57	(3)	(33)
Net change in unrealized gain on available-for-sale securities	13	39	40
Net change in minimum pension liability	5	(54)	124
Net other comprehensive income adjustments	(321)	647	1,052
Balance at end of year	(1,669)	(1,348)	(1,995)
Treasury stock			
Balance at beginning of year	(17,625)	(15,871)	(14,389)
Purchases of treasury stock	(2,019)	(1,754)	(1,482)
Balance at end of year	(19,644)	(17,625)	(15,871)
Total shareowners' equity	$ 16,355	$ 15,935	$ 14,090
Comprehensive income			
Net income	$ 4,872	$ 4,847	$ 4,347
Net other comprehensive income adjustments	(321)	647	1,052
Total comprehensive income	$ 4,551	$ 5,494	$ 5,399

(1) Common stock purchased from employees exercising stock options numbered 0.5 shares, 0.4 shares and 0.4 shares for the years ended December 31, 2005, 2004 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 Comprehensive Income

Accumulated Other Comprehensive Income (Loss) ("AOCI"), including our proportionate share of equity method investees' AOCI, consisted of the following (in millions):

	2005	2004
Foreign currency translation adjustment	$(1,587)	$(1,191)
Accumulated derivative net losses	(23)	(80)
Unrealized gain on available-for-sale securities	104	91
Minimum pension liability	(163)	(168)
Accumulated other comprehensive income (loss)	$(1,669)	$(1,348)

A summary of the components of other comprehensive income (loss), including our proportionate share of equity method investees' other comprehensive income (loss), for the years ended December 31, 2005, 2004 and 2003, is as follows (in millions):

	Before-Tax Amount	Income Tax	After-Tax Amount
2005			
Net foreign currency translation adjustment	$ (440)	$ 44	$ (396)
Net gain on derivatives	94	(37)	57
Net change in unrealized gain on available-for-sale securities	20	(7)	13
Net change in minimum pension liability	5	—	5
Other comprehensive income (loss)	$ (321)	$ —	$ (321)
2004			
Net foreign currency translation adjustment	$ 766	$(101)	$ 665
Net loss on derivatives	(4)	1	(3)
Net change in unrealized gain on available-for-sale securities	48	(9)	39
Net change in minimum pension liability	(81)	27	(54)
Other comprehensive income (loss)	$ 729	$ (82)	$ 647
2003			
Net foreign currency translation adjustment	$ 913	$ 8	$ 921
Net loss on derivatives	(63)	30	(33)
Net change in unrealized gain on available-for-sale securities	65	(25)	40
Net change in minimum pension liability	181	(57)	124
Other comprehensive income (loss)	$1,096	$ (44)	$1,052

4.16

COVENTRY HEALTH CARE, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Treasury Stock, at Cost	Additional Paid-In Capital	Other Comprehensive Income Accumulated (Loss)	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2002	$1,541	$(205,644)	$ 529,466	$ 22,167	$ 298,507	$ 646,037
Comprehensive income						
Net earnings					250,145	250,145
Other comprehensive income						
Holding loss, net				(5,199)		
Reclassification adjustment				(95)		
						(5,294)
Deferred tax effect				965		965
Comprehensive income						245,816
Issuance of common stock, including exercise of options and warrants	31	1,370	17,211			18,612
Tax benefit of stock options exercised			18,533			18,533
Balance, December 31, 2003	1,572	(204,274)	565,210	17,838	548,652	928,998
Comprehensive income						
Net earnings					337,117	337,117
Other comprehensive income						
Holding loss, net				(15,424)		
Reclassification adjustment				(576)		
						(16,000)
Deferred tax effect				6,164		6,164
Comprehensive income						327,281
Issuance (purchase) of common stock, including exercise of options and warrants	20	(86,780)	21,458			(65,302)
Tax benefit of stock options exercised			21,449			21,449
Balance, December 31, 2004	1,592	(291,054)	608,117	8,002	885,769	1,212,426
Comprehensive income						
Net earnings					501,639	501,639
Other comprehensive income						
Holding loss, net				(17,413)		
Reclassification adjustment				(2,019)		
						(19,432)
Deferred tax effect				7,687		7,687
Comprehensive income						489,894
Issuance of stock related to First Health acquisition	247		783,943			784,190
Issuance (purchase) of common stock, including exercise of options	24	(7,947)	38,093			30,170
Tax benefit of stock options exercised			38,023			38,023
Balance, December 31, 2005	$1,863	$(299,001)	$1,468,176	$ (3,743)	$1,387,408	$2,554,703

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Significant Accounting Policies (In Part)

Comprehensive Income

Comprehensive income includes net income and the unrealized net gains and losses on investment securities. Other comprehensive income is net of reclassification adjustments to adjust for items currently included in net income, such as realized gains and losses on investment securities. The deferred tax benefit for unrealized holding losses arising from investment securities during the years ended December 31, 2005, 2004 and 2003 was $6.9 million, $6.0 million and $1.0 million, respectively. The deferred tax benefit tax benefit for reclassification adjustments for gains included in net income on investment securities during the years ended December 31, 2005, 2004 and 2003 was $0.8 million, $0.2 million and $0.02 million, respectively.

4.17

SEALED AIR CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In millions of dollars)	2005	2004	2003
Net earnings	$255.8	$215.6	$240.4
Other comprehensive income (loss)			
Minimum pension liability, net of income tax (benefit) expense of $(1.1), $(1.0) and $0.5 in 2005, 2004 and 2003, respectively	(2.0)	(1.7)	0.6
Unrecognized (loss) gain on derivative instruments, net of income tax (benefit) expense of $(0.4), $(0.4) and $5.3 in 2005, 2004 and 2003, respectively	(0.8)	(0.4)	8.0
Foreign currency translation adjustments	(91.9)	69.2	75.2
Comprehensive income	$161.1	$282.7	$324.2

COMPONENTS OF OTHER COMPREHENSIVE INCOME

4.18 *SFAS No. 130* requires that items included in other comprehensive income shall be classified based on their nature. For example, under existing pronouncements, other comprehensive income shall be classified separately into foreign currency items, minimum pension liability adjustments, changes in fair value of derivatives, and unrealized gains and losses on certain debt and equity securities.

4.19 *SFAS No. 130* also requires that adjustments shall be made to avoid double counting, in comprehensive income, items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period, that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose, must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice. These adjustments are called reclassification adjustments. An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported or it may disclose them in the notes to the financial statements.

4.20 Table 4-3 lists the components of other comprehensive income disclosed by survey companies in the statement used to present comprehensive income for the period reported.

4.21 Examples showing the presentation of components of other comprehensive income follow.

4.22

TABLE 4-3: OTHER COMPREHENSIVE INCOME—COMPONENTS

	2005	2004	2003	2002
Cumulative translation adjustments	495	490	477	468
Minimum pension liability adjustments	403	395	389	373
Changes in fair value of derivatives	331	325	311	325
Unrealized losses/gains on certain investments	263	270	268	268
Other	5	3	2	4

Cumulative Translation Adjustments

4.23

W.W. GRAINGER, INC. (DEC)

Consolidated Statements of Comprehensive Earnings

(In thousands of dollars)	2005	2004	2003
Net earnings	$346,324	$286,923	$226,971
Other comprehensive earnings (losses)			
Foreign currency translation adjustments, net of tax (expense) benefit of $(1,642), $(8,734), and $9,527, respectively	9,383	15,458	37,600
Unrealized holding loss on deferred compensation plan, net of tax benefit of $226 for 2005	(353)	—	—
Gains (losses) on investment securities			
Unrealized holding gains, net of tax (expense) of $(312) for 2003	—	—	488
Reclassifications for net losses included in earnings, net of tax (benefit) of $(158) for 2003	—	—	248
	9,030	15,458	38,336
Comprehensive earnings	$355,354	$302,381	$265,307

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Background and Basis of Presentation

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Net exchange gains or losses resulting from the translation of financial statements of foreign operations and related long-term debt are recorded as a separate component of shareholders' equity. See Note 2 to the Consolidated Financial Statements.

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

Other Comprehensive Earnings (Losses)

The Company's Other comprehensive earnings (losses) include foreign currency translation. Through the third quarter of 2004, the foreign currency translation adjustments were partially offset by the after-tax effects of a designated hedge. Also, included in Other comprehensive earnings (losses) are unrealized (losses) on a deferred compensation plan.

The following table sets forth the components of Accumulated other comprehensive earnings (losses), net of related income tax effects:

(In thousands of dollars)	2005	2004	2003
Foreign currency translation adjustments	$27,435	$18,052	$2,594
Unrealized (losses) on deferred compensation plan	(353)	—	—
Total accumulated other comprehensive earnings (losses)	$27,082	$18,052	$2,594

4.24

INTERFACE, INC. (DEC)

Consolidated Statements of Comprehensive Loss

(In thousands)	2005	2004	2003
Net income (loss)	$ 1,240	$(55,402)	$(33,257)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(34,351)	23,052	38,829
Minimum pension liability adjustment	5,986	1,289	(9,104)
Unrealized gain on hedges, net of tax	—	—	(3,154)
Comprehensive loss	$(27,125)	$(31,061)	$ (6,686)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Translation of Foreign Currencies

The financial position and results of operations of the Company's foreign subsidiaries are measured generally using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign currency exchange gains and losses are included in the net income (loss). Foreign exchange translation gains (losses) were $(34.4) million, $23.1 million, and $38.8 million, for the years ended 2005, 2004 and 2003, respectively.

Minimum Pension Liability Adjustments

4.25

MAGNETEK, INC. (JUN)

Consolidated Statements of Stockholders' Equity

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Restated)	Accumulated Other Comprehensive Loss	Total (Restated)
Balance, June 30, 2002	23,607	$236	$106,216	$115,803	$ (79,436)	$142,819
Employee stock purchase plan	24	—	75	—	—	75
Shares issued to trust	65	1	250	—	—	251
Deferred compensation plan	65	1	250	—	—	251
Share value trust	(65)	(1)	(250)	—	—	(251)
Net loss	—	—	—	(35,844)	—	(35,844)
Translation adjustments	—	—	—	—	7,087	7,087
Minimum pension liability	—	—	—	—	(35,717)	(35,717)
Comprehensive loss	—	—	—	—	—	(64,474)
Balance, June 29, 2003	23,696	$237	$106,541	$ 79,959	$(108,066)	$ 78,671
Exercise of stock options	18	—	67	—	—	67
Shares issued	4,200	42	18,480	—	—	18,522
Employee stock purchase plan	16	—	47	—	—	47
Pension plan contribution	535	6	2,386	—	—	2,392
Shares issued to trust	27	—	146	—	—	146
Deferred compensation plan	—	—	(22)	—	—	(22)
Share value trust	—	—	47	—	—	47
Net loss	—	—	—	(13,071)	—	(13,071)
Translation adjustments	—	—	—	—	2,331	2,331
Minimum pension liability	—	—	—	—	20,792	20,792
Comprehensive income	—	—	—	—	—	10,052
Balance, June 27, 2004	28,492	$285	$127,692	$ 66,888	$ (84,943)	$109,922
Exercise of stock options	53	—	172	—	—	172
Shares issued	3	—	5	—	—	5
Employee stock purchase plan	6	—	37	—	—	37
Shares issued to trust	61	1	283	—	—	284
Deferred compensation plan	61	1	252	—	—	253
Share value trust	(61)	(1)	(283)	—	—	(284)
Net loss	—	—	—	(26,870)	—	(26,870)
Translation adjustments	—	—	—	—	(199)	(199)
Minimum pension liability	—	—	—	—	(37,766)	(37,766)
Comprehensive loss	—	—	—	—	—	(64,835)
Balance, July 3, 2005	28,615	$286	$128,158	$ 40,018	$(122,908)	$ 45,554

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates (In Part)

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas requiring management estimates include the following key financial areas:

Pension Benefits

The valuation of the Company's pension plan requires the use of assumptions and estimates to develop actuarial valuations of expenses and assets/liabilities. These assumptions include discount rates, investment returns and mortality rates. Changes in assumptions and future investments returns could potentially have a material impact on the Company's expenses and related funding requirements.

14 (In Part): Employee Benefit Plans

The Company maintains a defined benefit retirement plan (the Plan) for the benefit of eligible employees, former employees and retirees in the U.S. Effective June 30, 2003, the Plan was frozen and no future compensation credits will be accrued to participants' individual accounts. Participant accounts will continue to be credited with interest. The Company funds the Plan in accordance with applicable employee benefit and tax laws, and did not make any contributions to the Plan during fiscal 2005. Based upon current contribution credits available under pension funding regulations, actuarial projections indicate no mandatory contributions to the plan would be required through fiscal year 2007 although the Company may elect to make contributions prior to that time. The Company elected to contribute 535,000 shares of its common stock valued at $2,391 during fiscal 2004.

Effective September 30, 2002, the Company terminated its retiree medical and life insurance programs, resulting in a pretax gain of $27,771 in fiscal year 2003.

Pension benefit obligations at year-end, fair value of plan assets and prepaid benefit costs for the years ended July 3, 2005 and June 27, 2004, were as follows:

	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$166,496	$171,707
Interest cost	10,302	10,250
Actuarial (gain) loss	25,504	(4,212)
Benefits paid	(10,854)	(11,249)
Benefit obligation at end of year	$191,448	$166,496
Change in plan assets		
Fair value of plan assets at beginning of year	$135,130	$120,351
Actual return on plan assets	(3,396)	23,637
Employer contributions	—	2,391
Benefits paid	(10,854)	(11,249)
Fair value of plan assets at end of year	$120,880	$135,130
Funded status	$ (70,568)	$ (31,366)
Unrecognized net actuarial loss	126,655	88,889
Prepaid benefit cost	$ 56,087	$ 57,523
Amounts recognized in statement of financial position		
Accrued benefit liability	(70,568)	(31,366)
Accumulated other comprehensive income	126,655	88,889
Net amount recognized	$ 56,087	$ 57,523

Pension plan assets include 900,000 shares of Company common stock valued at $2,286 as of July 3, 2005 and 1,801,900 shares of Company common stock valued at $15,028 as of June 27, 2004.

Under SFAS No. 87, *Employers' Accounting for Pensions,* when the accumulated benefit obligation ("ABO") exceeds the fair value of the plan assets, a minimum liability (net of related income tax benefit) must be established on the balance sheet with a corresponding amount in other comprehensive income (loss) in stockholders' equity. The minimum pension liability must also include any prepaid pension asset balance (the amount by which contributions to a plan have exceeded expense recorded under SFAS No. 87) as of the measurement date. Pursuant to SFAS No. 87, the Company recorded a minimum pension liability of $126,655 and $88,889 at July 3, 2005 and June 27, 2004, respectively. These amounts, net of tax benefits of $17,000, have been recorded as a reduction to equity in "Accumulated Other Comprehensive Loss" on the Company's consolidated balance sheets as of July 3, 2005 and June 27, 2004.

18. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following at July 3, 2005 and June 27, 2004:

	2005	2004
Minimum pension liability	$(109,655)	$(71,889)
Foreign currency translation adjustments	(13,253)	(13,054)
	$(122,908)	$(84,943)

The accumulated other comprehensive loss related to the minimum pension liability is net of tax benefits of $17,000.

4.26

VARIAN MEDICAL SYSTEMS, INC. (SEP)

Consolidated Statements of Stockholders' Equity and Comprehensive Earnings

	Common Stock		Capital in Excess of Par	Deferred Stock	Retained	Accumulated Other Comprehensive	
(In thousands)	Shares	Amount	Value	Compensation	Earnings	Loss	Total
Balances at September 27, 2002	135,580	$135,580	$ 50,488	$(3,190)	$ 302,992	$ (2,530)	$ 483,340
Net earnings	—	—	—	—	130,355	—	130,355
Minimum pension liability adjustment, net of taxes of $415	—	—	—	—	—	(886)	(886)
Comprehensive earnings	—	—	—	—	—	—	129,469
Issuance of stock under omnibus stock, stock option, and employee stock purchase plans (including tax benefit of $28,142)	4,326	4,326	60,470	—	—	—	64,796
Deferred stock compensation	6	6	140	(146)	—	—	—
Amortization of deferred stock compensation	—	—	—	1,055	—	—	1,055
Non-cash stock-based compensation	—	—	119	—	—	—	119
Repurchases of common stock	(3,970)	(3,970)	(19,649)	—	(81,480)	—	(105,099)
Balances at September 26, 2003	135,942	135,942	91,568	(2,281)	351,867	(3,416)	573,680
Net earnings	—	—	—	—	167,687	—	167,687
Minimum pension liability adjustment	—	—	—	—	—	3,416	3,416
Comprehensive earnings	—	—	—	—	—	—	171,103
Issuance of stock under omnibus stock, stock option, and employee stock purchase plans (including tax benefit of $33,916)	3,679	3,679	76,336	—	—	—	80,015
Amortization of deferred stock compensation	—	—	—	1,171	—	—	1,171
Repurchases of common stock	(5,576)	(5,576)	(33,919)	—	(162,312)	—	(201,807)
Balances at October 1, 2004	134,045	134,045	133,985	(1,110)	357,242	—	624,162
Net earnings	—	—	—	—	206,576	—	206,576
Minimum pension liability adjustment, net of taxes of $2,867	—	—	—	—	—	(5,821)	(5,821)
Comprehensive earnings	—	—	—	—	—		200,755
Issuance of stock under omnibus stock, stock option, and employee stock purchase plans (including tax benefit of $21,993)	2,585	2,585	57,569	—	—	—	60,154
Deferred stock compensation	45	45	1,755	(1,800)	—	—	—
Amortization of deferred stock compensation	—	—	—	1,113	—	—	1,113
Repurchases of common stock	(5,960)	(5,960)	(41,046)	—	(180,151)	—	(227,157)
Balances at September 30, 2005	130,715	$ 130,715	$152,263	$(1,797)	$ 383,667	$ (5,821)	$ 659,027

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Comprehensive Earnings

Comprehensive earnings include all changes in equity (net assets) during a period from non-owner sources. The change in comprehensive earnings for all periods presented resulted from a minimum pension liability adjustment, net of taxes (see Note 10).

10 (In Part): Retirement Plans

The Company sponsors the Varian Medical Systems, Inc. Retirement Plan (the "Retirement Plan")—a defined contribution plan that is available to substantially all of its employees in the United States. Under Section 401(k) of the Internal Revenue Code, the Retirement Plan allows for tax-deferred salary contributions by eligible employees.

Participants can contribute from 1% to 40% of their annual base compensation to the Retirement Plan (up to 25% on a pre-tax basis and an additional 15% on an after-tax basis (for those employees with one or more years of service with the Company)). However, participant contributions are limited to a maximum annual amount as determined periodically by the Internal Revenue Service. The Company matches eligible participant contributions dollar for dollar for the first 6% of eligible base compensation. The Company also matches 6% of each participant's Employee Incentive Plan ("EIP") contribution, should the participant elect to contribute his or her EIP to the Retirement Plan. All matching contributions vest immediately. The Retirement Plan allows participants to invest up to 25% of their contributions in shares of VMS's common stock as an investment option. The Company also sponsors four defined benefit plans for regular full-time employees in Germany, Japan, Switzerland and the United Kingdom. Total retirement and pension expense for all plans amounted to $14.4 million, $13.8 million and $12.4 million for fiscal years 2005, 2004 and 2003, respectively.

Obligations and Funded Status

The funded status of the defined benefit and post-retirement benefit plans as of the end of the fiscal year is as follows:

	Defined Benefit Plans		Post-Retirement Benefit Plans	
(In millions)	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation—beginning of fiscal year	$ 67.1	$ 57.9	$ 6.7	$ 9.1
Service cost	3.1	3.0	—	—
Interest cost	3.2	2.6	0.4	0.5
Plan participants' contributions	4.5	1.7	—	—
Actuarial (gain) loss	12.5	(0.6)	0.1	(1.6)
Foreign currency changes	(1.9)	4.5	—	—
Benefit payments	(2.6)	(2.0)	(0.6)	(0.6)
Transfers in	0.3	—	—	—
Value of employer subsidy	—	—	—	(0.7)
Benefit obligation—end of fiscal year	$ 86.2	$ 67.1	$ 6.6	$ 6.7
Change in plan assets				
Plan assets—beginning of fiscal year	$ 54.2	$ 40.5	$ —	$ —
Employer contributions	4.0	7.1	0.6	0.6
Actual return on plan assets	7.7	3.5	—	—
Plan participants' contributions	4.5	1.7	—	—
Foreign currency changes	(1.9)	3.3	—	—
Benefit and expense payments	(2.6)	(1.9)	(0.6)	(0.6)
Plan assets—end of fiscal year	$ 65.9	$ 54.2	$ —	$ —
Funded status	$(20.3)	$(12.9)	$(6.6)	$(6.7)
Unrecognized transition obligation	—	—	2.2	2.7
Unrecognized prior service cost	1.4	1.6	0.1	—
Unrecognized net (gain) loss	19.6	12.5	(0.1)	(0.1)
Distributions	—	—	0.1	0.1
Net amount recognized	$ 0.7	$ 1.2	$(4.3)	$(4.0)
Amounts recognized within the consolidated balance sheet				
Prepaid (accrued) pension expense	$ 5.2	$ 5.2	$(4.3)	$(4.0)
Accrued benefit liability	(13.2)	(4.1)	—	—
Intangible assets	—	0.1	—	—
Accumulated other comprehensive loss	8.7	—	—	—
Net amount recognized	$ 0.7	$ 1.2	$(4.3)	$(4.0)

The Company had actuarial loss of $12.5 million for the defined benefit plans in fiscal year 2005 due primarily to decreases in discount rates used in all countries.

The total fair value of plan assets, benefit obligation and accumulated benefit obligation for those defined benefit plans where accumulated benefit obligation exceeded the fair value of plan assets as of the end of the fiscal years are as follows:

	Defined Benefit Plans	
(In millions)	2005	2004
Projected benefit obligation	$52.5	$26.7
Accumulated benefit obligation	$42.0	$24.3
Fair value of plan assets	$33.0	$21.2

The accumulated benefit obligation for all defined benefit plans was $70.9 million and $55.3 million at September 30, 2005 and October 1, 2004, respectively.

Additional Information

The Company evaluates each defined benefit plan annually to determine whether any additional minimum liability is required. As a result of the decreases in discount rates and a decrease in expected investment returns, an adjustment to the additional minimum pension liability was required for certain plans in fiscal year 2005. The adjustment in the liability was recorded as a charge or a (credit) to Accumulated Other Comprehensive Loss, net of taxes, in stockholders' equity in the consolidated balance sheets.

(In millions)	2005	2004	2003
Increase (decrease) in minimum liability included in other comprehensive loss, net of taxes	$5.8	$(3.4)	$0.9

Changes in Fair Value of Derivatives

4.27

3M COMPANY (DEC)

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income

(Dollars in millions, except per share amounts)	Total	Common Stock and Capital in Excess of Par	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2002	$ 5,993	$296	$12,748	$(4,767)	$(258)	$(2,026)
Net income	2,403		2,403			
Cumulative translation adjustment	650					650
Minimum pension liability adjustment	(173)					(173)
Debt and equity securities, unrealized gain	1					1
Derivative financial instruments—unrealized loss	(6)					(6)
Total comprehensive income	2,875					
Dividends paid ($1.32 per share)	(1,034)		(1,034)			
Amortization of unearned compensation	32				32	
Reacquired stock (9.7 million shares)	(685)			(685)		
Issuances pursuant to stock option and benefit plans (13.4 million shares)	704		(107)	811		
Balance at December 31, 2003	7,885	296	14,010	(4,641)	(226)	(1,554)
Net income	2,990		2,990			
Cumulative translation adjustment	490					490
Minimum pension liability adjustment	1,193					1,193
Debt and equity securities	—					—
Derivative financial instruments—unrealized gain	3					3
Total comprehensive income	4,676					
Dividends paid ($1.44 per share)	(1,125)		(1,125)			
Amortization of unearned compensation	30				30	
Reacquired stock (22.0 million shares)	(1,791)			(1,791)		
Issuances pursuant to stock option and benefit plans (10.9 million shares)	660		(226)	886		
Issuances pursuant to acquisitions (0.5 million shares)	43			43		
Balance at December 31, 2004	10,378	296	15,649	(5,503)	(196)	132
Net income	3,199		3,199			
Cumulative translation adjustment	(578)					(578)
Minimum pension liability adjustment	(46)					(46)
Debt and equity securities—unrealized gain	1					1
Derivative financial instruments—unrealized gain	80					80
Total comprehensive income	2,656					
Dividends paid ($1.68 per share)	(1,286)		(1,286)			
Amortization of unearned compensation	18				18	
Reacquired stock (30.7 million shares)	(2,377)			(2,377)		
Issuances pursuant to stock option and benefit plans (11.7 million shares)	711		(204)	915		
Balance at December 31, 2005	$10,100	$296	$17,358	$(6,965)	$(178)	$ (411)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Comprehensive Income

Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income. Accumulated other comprehensive income (loss) is composed of foreign currency translation effects (including hedges of net investments in international companies), minimum pension liability adjustments, unrealized gains and losses on available-for-sale debt and equity securities, and unrealized gains and losses on cash flow hedging instruments.

Derivatives and Hedging Activities

All derivative instruments are recorded on the balance sheet at fair value. The Company uses interest rate swaps, currency swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. All hedging instruments that qualify for hedge accounting are designated and effective as hedges, in accordance with U.S. generally accepted accounting principles. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. The Company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives. However, the Company does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M common stock.

Note 5 (In Part): Supplemental Stockholders' Equity and Comprehensive income Information

The components of the ending balances of accumulated other comprehensive income (loss) as of December 31 follow:

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Millions)	Total	Cumulative Translation Adjustment	Minimum Pension Liability Adjustment	Unrealized Gain (Loss) on Debt and Equity Securities	Unrealized Gain (Loss) on Cash Flow Hedging Instruments
Balance at December 31, 2002	$(2,026)	$(858)	$(1,130)	$ 1	$(39)
Pre tax amount	370	634	(257)	2	(9)
Tax effect	102	16	84	(1)	3
Net-of-tax amount	472	650	(173)	1	(6)
Balance at December 31, 2003	(1,554)	(208)	(1,303)	2	(45)
Pre tax amount	2,413	483	1,924	—	6
Tax effect	(727)	7	(731)	—	(3)
Net-of-tax amount	1,686	490	1,193	—	3
Balance at December 31, 2004	132	282	(110)	2	(42)
Pre tax amount	(497)	(597)	(28)	2	126
Tax effect	(46)	19	(18)	(1)	(46)
Net-of-tax amount	(543)	(578)	(46)	1	80
Balance at December 31, 2005	$ (411)	$(296)	$ (156)	$ 3	$ 38

Income tax effects for cumulative translation are not significant because no tax provision has been made for the translation of foreign currency financial statements into U.S. dollars. Reclassifications adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassification adjustments (other than for cash flow hedging instruments provided in Note 9 to the Consolidated Financial Statements) were not material.

Note 9 (In Part): Derivatives and Other Financial Instruments

The Company uses interest rate swaps, currency swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. The information that follows explains the various types of derivatives and financial instruments, and includes a table that recaps cash flow hedging amounts.

Foreign Currency Forward and Option Contracts

The Company enters into foreign exchange forward contracts, options and swaps to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. At December 31, 2005, the Company had various open foreign exchange forward and option contracts, the majority of which had maturities of one year or less. The amounts at risk are not material because the Company has the ability to generate offsetting foreign currency cash flows. The settlement or extension of these derivatives will result in reclassifications to earnings in the period during which the hedged transactions affect earnings (from other comprehensive income). The maximum length of time over which 3M is hedging its exposure to the variability in future cash flows for a majority of the forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is 12 months. Based on exchange rates at December 31, 2005, the Company expects to reclassify to earnings over the next 12 months a majority of the cash flow hedging instruments after-tax gain of $38 million (with the impact largely offset by foreign currency cash flows from underlying hedged items). Hedge ineffectiveness was not material for the years 2005, 2004 and 2003. Amounts recorded in accumulated other comprehensive income (loss) related to cash flow hedging instruments follow.

CASH FLOW HEDGING INSTRUMENTS

(Millions)	2005	2004	2003
Beginning balance	$(42)	$(45)	$ (39)
Changes in fair value of derivatives	70	(48)	(102)
Net losses reclassified into earnings from equity	10	51	96
Total activity	80	3	(6)
Ending balance	$ 38	$(42)	$ (45)

Interest Rate and Currency Swaps

The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The Company uses interest rate and currency swaps to manage interest rate risk related to borrowings.

At December 31, 2005, the Company did not have any interest rate swaps designated as fair value hedges of underlying fixed rate obligations. The fair value of swaps at December 31, 2004 was $3 million. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss on the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are 100% effective and, thus, there is no impact on earnings due to hedge ineffectiveness.

As circumstances warrant, the Company also uses cross-currency interest rate swaps to hedge foreign currency and interest rates. As part of this strategy, in September 2003, the Company entered into a three-year combined interest rate and currency swap with a notional amount of $300 million. This transaction is a partial hedge of 3M's net investment in 3M's Japanese subsidiaries. This swap converts a variable rate U.S. dollar exposure to a variable rate yen-denominated exposure.

Net Investment Hedging

As circumstances warrant, the Company uses foreign currency debt and forwards to hedge portions of the Company's net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses are recorded in cumulative translation within other comprehensive income, with any ineffectiveness recorded in cost of sales. The unrealized gain recorded in cumulative translation at December 31, 2005 was $47 million and the unrealized gain at December 31, 2004 was $5 million. At December 31, 2003, this amount was not material. Hedge ineffectiveness was not material in 2005, 2004 and 2003.

Commodity Price Management

The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective (typically 100% effective), and reclassified into cost of sales in the period during which the hedged transaction affects earnings. 3M has hedged its exposure to the variability of future cash flows for certain forecasted transactions through 2008. No significant commodity cash flow hedges were discontinued during the years 2005, 2004 and 2003.

Currency Effects

3M estimates that year-on-year currency effects, including hedging impacts, increased net income by $115 million in 2005, $181 million in 2004, and $73 million in 2003. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks. 3M estimates that year-on-year derivative and other transaction gains and losses increased net income by $50 million in 2005 and $48 million in 2004. 3M estimates that year-on-year derivative and other transaction gains and losses decreased net income by $73 million in 2003.

Credit Risk

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, and option and foreign exchange contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties.

Fair Value of Financial Instruments

At December 31, 2005 and 2004, the Company's financial instruments included cash and cash equivalents, accounts receivable, investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt (except the $350 million dealer remarketable security) approximated carrying values because of the short-term nature of these instruments. Available-for-sale investments and derivative contracts are reported at fair values. Fair values for investments held at cost are not readily available, but are estimated to approximate fair value.

4.28

OCCIDENTAL PETROLEUM CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	2005	2004	2003
Net income	$5,281	$2,568	$1,527
Other comprehensive income (loss) items			
Foreign currency translation adjustments[(a)]	(13)	3	38
Derivative mark-to-market adjustments[(b)]	(330)	7	2
Minimum pension liability adjustments[(c)]	(1)	—	13
Raclassification of realized gains[(d)]	(463)	—	—
Unrealized gains on securities[(e)]	279	95	24
Other comprehensive (loss) income, net of tax	(528)	105	77
Comprehensive income	$4,753	$2,673	$1,604

(a) Net of tax of $13, $(1) and $15 in 2005, 2004 and 2003, respectively.
(b) Net of tax of $188, $4 and $1 in 2005, 2004 and 2003, respectively.
(c) Net of tax of $0, $0 and $7 in 2005, 2004 and 2003, respectively.
(d) Net of tax of $264 in 2005. Amount represents the recognition of the gain due to Valero Energy Corporation's acquisition of Premcor, Inc. and the subsequent sale of the Valero shares.
(e) Net of tax of $165, $51 and $13 in 2005, 2004 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments

All derivative instruments required to be marked-to-market under Statement of Financial Accounting Standards (SFAS) No. 133, as amended, are carried at fair value. The related assets are included in receivables from joint ventures, partnerships and other and long-term receivables. The related liabilities are included in accrued liabilities and deferred credits and other liabilities—other. Occidental classifies its fair value swap interest receipts as reductions of interest expense. Cash flow hedge realized gains and losses, and any ineffectiveness, are classified within the net sales line item. Gains and losses are netted in the income statement and are netted on the balance sheets when a right of offset exists.

Occidental applies either fair value or cash flow hedge accounting when transactions meet specified criteria for hedge accounting treatment. If the derivative does not qualify as a hedge or is not designated as a hedge, the gain or loss is immediately recognized in earnings. If the derivative qualifies for hedge accounting, the gain or loss on the derivative is either recognized in income with an offsetting adjustment to the basis of the item being hedged for fair value hedges, or deferred in OCI to the extent the hedge is effective for cash flow hedges.

A hedge is regarded as highly effective and qualifies for hedge accounting if, at inception and throughout its life, it is expected that changes in the fair value or cash flows of the hedged item are almost fully offset by the changes in the fair value or changes in cash flows of the hedging instrument and actual effectiveness is within a range of 80 percent to 125 percent. In the case of hedging a forecasted transaction, the transaction must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported net income or loss. Occidental discontinues hedge accounting when it is determined that a derivative has ceased to be highly effective as a hedge; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable; or when the derivative is no longer designated as a hedge.

Financial Instruments Fair Value

Occidental values financial instruments as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those instruments. The carrying value of other on-balance-sheet financial instruments, other than fixed-rate debt, approximates fair value, and the cost, if any, to terminate off-balance-sheet financial instruments is not significant.

Note 2 Derivative Activities Including Fair Value of Financial Instruments

Occidental's market risk exposures relate mainly to commodity prices and, to a lesser extent, interest rates and foreign currency exchange rates. Occidental periodically enters into derivative instrument transactions to reduce these price and rate fluctuations. A derivative is an instrument that, among other characteristics, derives its value from changes in another instrument or variable.

In general, the fair value recorded for derivative instruments is based on quoted market prices, dealer quotes and the Black Scholes or similar valuation models.

Commodity Price Risk

General

Occidental's results are sensitive to fluctuations in crude oil and natural gas prices.

Marketing and Trading Operations

Occidental periodically uses different types of derivative instruments to achieve the best prices for oil and gas. Derivatives are also used by Occidental to reduce its exposure to price volatility and mitigate fluctuations in commodity-related cash flows. Occidental enters into low-risk marketing and trading activities through its separate marketing organization, which operates under established policy controls and procedures. With respect to derivatives used in its oil and gas marketing operations. Occidental utilizes a combination of futures, forwards, options and swaps to offset various physical transactions. Occidental's use of derivatives in marketing and trading activities primarily relates to managing cash flows from third-party purchases, which includes Occidental's periodic gas storage activities.

Production Hedges

During the first quarter of 2005, Occidental entered into a series of fixed price swaps and costless collar agreements that qualify as cash-flow hedges for the sale of its crude oil production. These hedges, which began in July 2005 and continue to the end of 2011, hedge less than 4 percent of Occidental's 2005 crude oil production.

Fair Value of Marketing and Trading Derivative Contracts

The following tables reconcile the changes in the net fair value of Occidental's marketing and trading contracts, a portion of which are hedges, during 2005 and 2004 and segregate the open contracts at December 31, 2005 by maturity periods.

(In millions)	2005	2004
Fair value of contracts outstanding at beginning of year	$ 30	$32
Losses (gains) on changes for contracts realized or otherwise settled during the year	56	(94)
Changes in fair value attributable to changes in valuation techniques and assumptions	—	—
(Losses) gains or other changes in fair values	(543)[a]	92
Fair value of contracts outstanding at end of year	$(457)	$30

[a] Primarily relates to production hedges.

	Maturity Periods				
Source of Fair Value	2006	2007 to 2008	2009 to 2010	2011 and Thereafter	Total Fair Value
Prices actively quoted	$(42)	$ (42)	$ 4	$ 5	$ (75)
Prices provided by other external sources	1	(15)	7	4	(11)
Prices based on models and other valuation methods[a]	(42)	(133)	(137)	(59)	(371)
Total	$(83)	$(190)	$(126)	$(58)	$(457)

[a] The underlying prices utilized for the 2006 and 2007 fair value calculation of the options are based on monthly NYMEX published prices. The underlying prices for years 2008 through 2011 are based on the year-end NYMEX published prices, as published monthly prices are not available. These prices are input into an industry standard options pricing model to determine fair value.

Interest Rate Risk

General

Occidental is exposed to risk resulting from changes in interest rates and it enters into various derivative financial instruments to manage interest-rate exposure. Interest-rate swaps, forward locks and futures contracts are entered into periodically as part of Occidental's overall strategy to manage its interest rate risk exposures.

Hedging Activities

In 2005, Occidental terminated all of its interest-rate swaps that were accounted for as fair-value hedges. These hedges had effectively converted approximately $1.7 billion of fixed-rate debt to variable-rate debt. The fair value of the swaps at termination resulted in a gain of approximately $20 million, which is being amortized into income over the remaining life of the previously hedged debt. The amount of interest expense recorded in the income statement was lower, as a result of the swaps and amortization of the deferred gain, by approximately $21 million, $56 million and $58 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Occidental was a party to a series of forward interest-rate locks, which qualified as cash-flow hedges. The hedges were related to the construction of a cogeneration plant leased by Occidental that was completed in December 2002. The unamortized loss on the hedges at December 31, 2005 was approximately $19 million after-tax, which is recorded in accumulated OCI and is being recognized in earnings over the lease term of 26 years on a straight-line basis.

Certain of Occidental's equity investees have entered into additional derivative Instruments that qualify as cash-flow hedges. Occidental reflects its proportionate share of these cash-flow hedges in OCI.

Credit Risk

Occidental's energy contracts are spread among several counterparties. Creditworthiness is reviewed before doing business with a new counterparty and on an ongoing basis. Occidental monitors aggregated counterparty exposure relative to credit limits, and manages credit-enhancement issues. Credit exposure for each customer is monitored for outstanding balances, current month activity, and forward mark-to-market exposure and losses associated with credit risk have been immaterial.

Foreign Currency Risk

A few of Occidental's foreign operations have currency risk. Occidental manages its exposure primarily by balancing monetary assets and liabilities and maintaining cash positions only at levels necessary for operating purposes. Most international crude oil sales are denominated in U.S. dollars. Additionally, all of Occidental's oil and gas consolidated foreign entities have the U.S. dollar as the functional currency. At December 31, 2005 and 2004, Occidental had not entered into any foreign currency derivative instruments. The effect of exchange-rate transactions in foreign currencies is included in periodic income and is immaterial.

Derivative and Fair Value Disclosures

The following table shows derivative financial instruments included in the consolidated balance sheets:

(In millions)	2005	2004
Derivative financial instrument assets		
Current	$286	$154
Non-current	178	73
	$464	$227
Derivative financial instrument liabilities		
Current	$387	$132
Non-current	564	30
	$951	$162

The following table summarizes net after-tax derivative activity recorded in accumulated OCI (AOCI):

(In millions)	2005	2004
Beginning balance	$ (17)	$(24)
Gains (losses) from changes in current cash flow hedges	(289)	24
Amount reclassified to income	(41)	(17)
Ending balance	$(347)	$(17)

During the next twelve months, Occidental expects that approximately $75 million of net derivative after-tax losses included in AOCI, based on their valuation at December 31, 2005, will be reclassified into earnings. Hedge ineffectiveness did not have a material impact on earnings for the years ended December 31, 2005, 2004 and 2003.

Note 11 (In Part): Stockholders' Equity

Accumulated Other Comprehensive Income (AOCI)

AOCI consisted of the following after-tax amounts:

(In millions)	2005	2004
Foreign currency translation adjustments	$ (29)	$(15)
Derivative mark-to-market adjustments	(347)	(17)
Minimum pension liability adjustments	3	3
Unrealized gains on securities	—	184
Total	$(373)	$155

Unrealized Losses/Gains on Certain Investments

4.29

CAREER EDUCATION CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock						
(In thousands)	Issued Shares	$0.01 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
Balance, December 31, 2002	92,060	$ 920	$277,804	$(1,109)	$ —	$115,795	$ 393,410
Net income	—	—	—	—	—	112,804	112,804
Foreign currency translation	—	—	—	4,095	—	—	4,095
Total comprehensive income							116,899
Compensatory options	—	—	248	—	—	—	248
Issuance of common stock	4,544	46	152,052	—	—	—	152,098
Options exercised	3,591	36	24,581	—	—	—	24,617
Tax benefit of options exercised	—	—	41,897	—	—	—	41,897
Balance, December 31, 2003	100,195	$1,002	$496,582	$ 2,986	$ —	$228,599	$ 729,169
Net income	—	—	—	—	—	179,619	179,619
Foreign currency translation	—	—	—	1,410	—	—	1,410
Total comprehensive income							181,029
Issuance of common stock	195	2	6,246	—	—	—	6,248
Options exercised	2,147	21	25,259	—	—	—	25,280
Tax benefit of options exercised	—	—	43,105	—	—	—	43,105
Balance, December 31, 2004	102,537	$1,025	$571,192	$ 4,396	$ —	$408,218	$ 984,831
Net income	—	—	—	—	—	233,878	233,878
Foreign currency translation	—	—	—	(2,435)	—	—	(2,435)
Unrealized gain on investments	—	—	—	28	—	—	28
Total comprehensive income							231,471
Treasury stock purchased	—	—	—	—	(200,158)	—	(200,158)
Compensatory shares	1	—	34	—	—	—	34
Issuance of common stock	207	2	5,797	—	—	—	5,803
Options exercised	640	6	8,996	—	—	—	8,998
Tax benefit of options exercised	—	—	5,268	—	—	—	5,268
Balance, December 31, 2005	103,385	$1,033	$591,287	$ 1,989	$(200,158)	$642,096	$1,036,247

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

g. Investments

Investments, which primarily consist of municipal auction rate securities and asset-back securities, are classified as "available-for-sale" in accordance with the provisions of Statement of Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and are recorded at fair value. Any unrealized gains or temporary unrealized losses, net of income tax effects, are reported as a component of accumulated other comprehensive income on our consolidated balance sheets. Realized gains and losses are computed on the basis of specific identification and are included in miscellaneous other income (expense) in our consolidated income statements. As of December 31, 2005, our investments in municipal auction rate securities generally have stated terms to maturity of greater than one year. However, we classify such investments as current on our consolidated balance sheets because we are generally able to divest our holdings in municipal auction rate securities at auction 30 days from our purchase date.

6. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following as of December 31, 2005 and 2004 (in thousands):

		Gross Unrealized		
December 31, 2005	Cost	(Loss)	Gain	Fair Value
Cash and cash equivalents				
Cash	$ 64,367	$ —	$—	$ 64,367
Money market funds	44,513	—	—	44,513
Commercial paper	23,427	—	—	23,428
Total cash and cash equivalents	132,307	—	1	132,308
Investments (available-for-sale)				
Auction rate municipal bonds[(1)]	239,003	(3)	—	239,000
Asset-backed securities	30,444	(41)	85	30,488
Mortgage-backed securities	2,619	(14)	—	2,605
Total investments	272,066	(58)	85	272,093
Total cash and cash equivalents and investments	$404,373	$(58)	$86	$404,401

[(1)] Investments in auction rate municipal bonds generally have stated terms to maturity of greater than one year. However, we classify investments in auction rate municipal bonds as current on our consolidated balance sheet because we are generally able to divest our holdings at auction 30 days from our purchase date.

		Gross Unrealized		
December 31, 2004	Cost	(Loss)	Gain	Fair Value
Cash and cash equivalents				
Cash	$ 73,264	$—	$—	$ 73,264
Money market funds	247,969	—	—	247,969
Commercial paper	28,225	—	—	28,225
Total cash and cash equivalents	$349,458	$—	$—	349,458

As of December 31, 2005, all unrealized losses in the above tables relate to cash equivalents and available-for-sale investments that have been in a continuous unrealized loss position for less than one year. When evaluating our investments for possible impairment, we review factors such as the length of time and extent to which fair value has been less than cost basis, the financial condition of the investee, and our ability and intent to hold the investment for a period of time that may be sufficient for anticipated recovery in fair value. The declines in the fair value of the above investments are considered temporary in nature and, accordingly, we do not believe these investments are impaired as of December 31, 2005.

A schedule of available-for-sale investments segregated by their original stated terms to maturity as of December 31, 2005, is as follows:

	Less Than One Year	One to Five Years	Six to Ten Years	Greater Than Ten Years	Total
Original stated term to maturity of available-for-sale investments as of December 31, 2005	$6,020	$39,511	$5,457	$221,105	$272,093

Although the stated term to maturity of certain of our available-for-sale investments are greater than one year, all of our available-for-sale investments are classified as current assets on our consolidated balance sheet as the investments are readily marketable and available for use in our current operations.

Realized gains or losses resulting from sales of investments during the years ended December 31, 2005, 2004, and 2003, were not significant.

4.30

ST. JUDE MEDICAL, INC. (DEC)

Consolidated Statements Shareholders' Equity

(In thousands, except share amounts)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2003	356,056,258	$35,606	$ 199,075	$ —	$1,411,194	$(69,148)	$1,576,727
Comprehensive income							
Net earnings					336,779		336,779
Other comprehensive income							
Unrealized gain on investments, net of taxes of $4,183						6,826	6,826
Foreign currency translation adjustment, net of taxes of $16,719						69,142	69,142
Other comprehensive income							75,968
Comprehensive income							412,747
Common stock issued under stock plans and other, net	8,469,166	846	88,856				89,702
Tax benefit from stock plans			42,484				42,484
Common stock repurchased, including related costs	(18,497,090)	(1,850)	(312,089)		(206,086)		(520,025)
Balance at December 31, 2003	346,028,334	34,602	18,326	—	1,541,887	6,820	1,601,635
Comprehensive income							
Net earnings					409,934		409,934
Other comprehensive income							
Unrealized gain on investments, net of taxes of $3,034						4,167	4,167
Foreign currency translation adjusment, net of taxes of ($8,270)						58,097	58,097
Other comprehensive income							62,264
Comprehensive income							472,198
Common stock issued under stock plans and other, net	12,732,359	1,274	144,869				146,143
Tax benefit from stock plans			113,952				113,952
Balance at December 31, 2004	358,760,693	35,876	277,147	—	1,951,821	69,084	2,333,928
Comprehensive income							
Net earnings					393,490		393,490
Other comprehensive income (loss)							
Unrealized gain on investments, net of taxes of $3,988						6,223	6,223
Foreign currency translation adjustment, net of taxes of $1,809						(83,082)	(83,082)
Other comprehensive loss							(76,859)
Comprehensive income							316,631
Options assumed in business combinations			21,997	(6,152)			15,845
Stock-based compensation			944	511			1,455
Common stock issued under stock plans and other, net	9,143,725	914	125,199				126,113
Tax benefit from stock plans			89,073				89,073
Balance at December 31, 2005	367,904,418	$36,790	$ 514,360	$(5,641)	$2,345,311	$ (7,775)	$2,883,045

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities

Marketable securities consist of publicly-traded equity securities that are classified as available-for-sale securities and investments in mutual funds that are classified as trading securities. The investments in mutual funds are held in a rabbi trust for the purpose of paying benefits under the Company's deferred compensation plan. On the balance sheet, available-for-sale securities and trading securities are classified as other current assets and other long-term assets, respectively.

Available-for-sale securities are recorded at fair market value based upon quoted market prices. Unrealized gains and losses, net of related incomes taxes, are recorded in accumulated other comprehensive income (loss) in shareholders' equity. The following table summarizes the Company's available-for-sale securities as of December 31 (in thousands):

	2005	2004
Adjusted cost	$15,820	$ 9,408
Gross unrealized gains	35,673	25,048
Gross unrealized losses	(413)	—
Fair value	$51,080	$34,456

Realized gains and losses from the sale of available-for-sale securities are recorded in other income (expense) and are computed using the specific identification method. During 2005, the Company sold an available-for-sale security for a realized gain of $1.4 million, which is included in other income (expense). The other comprehensive income (loss) reclassification adjustment for the realized gain on the sale of this marketable security, net of income taxes, was $0.9 million.

The Company's policy for assessing recoverability of its available-for-sale securities is to record a charge against net earnings when the Company determines that a decline in the fair value of a security drops below the cost basis and judges that decline to be other-than-temporary. During 2005, 2004 and 2003, the Company recorded write-downs of $0.6 million, $1.3 million and $1.0 million, respectively, on certain available-for-sale securities, which is included in other income (expense). Other comprehensive income (loss) reclassification adjustments for realized losses on the write-down of certain available-for-sale securities, net of income taxes, were $0.3 million, $0.9 million and $0.6 million in 2005, 2004 and 2003, respectively.

Reclassification Adjustments

4.31

THE HERSHEY COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands of dollars)	Common Stock	Class B Common Stock	Additional Paid-In Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of January 1, 2003	$149,528	$30,422	$105,717	$(12,774)	$2,924,706	$(1,808,227)	$ 21,071	$1,410,443
Net income					441,947			441,947
Other comprehensive (loss)							(32,156)	(32,156)
Comprehensive income								409,791
Dividends								
Common stock, $.7226 per share					(144,985)			(144,985)
Class B common stock, $.6526 per share					(39,701)			(39,701)
Incentive plan transactions			455			4,522		4,977
Stock-based compensation			22,741					22,741
Exercise of stock options			1,519			67,788		69,307
Employee stock ownership trust/benefits transactions			1,467	3,194		3,256		7,917
Repurchase of common stock						(414,780)		(414,780)
Balance as of December 31, 2003	149,528	30,422	131,899	(9,580)	3,181,967	(2,147,441)	(11,085)	1,325,710
Net income					577,901			577,901
Other comprehensive income							11,394	11,394
Comprehensive income								589,295
Dividends								
Common stock, $.835 per share					(159,658)			(159,658)
Class B common stock, $.7576 per share					(46,089)			(46,089)
Two-for-one stock split	149,529	30,422			(179,951)			—
Conversion of Class B common stock into common stock	3	(3)						—
Incentive plan transactions			36			1,609		1,645
Stock-based compensation			14,934					14,934
Exercise of stock options			23,248			81,482		104,730
Employee stock ownership trust/benefits transactions			1,296	3,193		956		5,445
Repurchase of common stock						(698,910)		(698,910)
Balance as of December 31,2004	299,060	60,841	171,413	(6,387)	3,374,170	(2,762,304)	309	1,137,102
Net income					493,244			493,244
Other comprehensive (loss)							(9,631)	(9,631)
Comprehensive income								483,613
Dividends								
Common stock, $.93 per share					(170,147)			(170,147)
Class B common stock, $.84 per share					(51,088)			(51,088)
Conversion of Class B common stock into common stock	23	(23)						—
Incentive plan transactions			236			1,161		1,397
Stock-based compensation			31,117					31,117
Exercise of stock options			49,406			73,258		122,664
Employee stock ownership trust/benefits transactions			202	3,194		19		3,415
Repurchase of common stock					(536,997)			(536,997)
Balance as of December 31,2005	$299,083	$60,818	$252,374	$ (3,193)	$3,646,179	$(3,224,863)	$ (9,322)	$1,021,076

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products for anticipated manufacturing requirements and to hedge transportation costs, the Company enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations.

The Company accounts for commodities futures contracts in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133, as amended"). SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. For a derivative designated as hedging the exposure to changes in the fair value of a recognized asset or liability or a firm commitment (referred to as a fair value hedge), the gain or loss must be recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to reflect in earnings the extent which the hedge is not effective in achieving offsetting changes in fair value. All derivative instruments currently utilized by the Company, including commodities futures contracts, are designated and accounted for as cash flow hedges. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activities.

Comprehensive Income

Comprehensive income (loss) is reported on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive income (loss) is reported on the Consolidated Balance Sheets. Additional information regarding comprehensive income is contained in Note 7, Comprehensive Income.

Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

A minimum pension liability adjustment is required when the actuarial present value of accumulated pension plan benefits exceeds plan assets and accrued pension liabilities, less allowable intangible assets. Minimum pension liability adjustments, net of income taxes, are recorded as a component of other comprehensive income (loss). "Minimum Pension Liability Adjustments."

Gains and losses on cash flow hedging derivatives, to the extent effective, are included in other comprehensive income (loss). Reclassification adjustments reflecting such gains and losses are ratably recorded in income in the same period as the hedged items affect earnings. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activities.

6 (In Part): Derivative Instruments and Hedging Activities

The Company adopted SFAS No. 133, as mended, as of January 1, 2001. SFAS No. 133, as amended, requires the Company to recognize all derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for the change in fair value of the derivative depends on whether the instrument qualifies for and has been designated as a hedging relationship and on the type of hedging relationship. There are three types of hedging relationships: a cash flow hedge, a fair value hedge and a hedge of foreign currency exposure of a net investment in a foreign operation. The designation is based upon the exposure being hedged. All derivative instruments currently utilized by the Company are designated and accounted for as cash flow hedges.

Objectives, Strategies and Accounting Policies Associated With Derivative Instruments

The Company utilizes certain derivative instruments, from time to time, including interest rate swaps, foreign currency forward exchange contracts and options, and commodities futures contracts, to manage variability in cash flows associated with interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodities futures contracts are entered into for varying periods, are intended to be, and are effective as hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs. If it is probable that hedged forecasted transactions will not occur either by the end of the originally specified time period or within an additional two-month period of time, derivative gains and losses reported in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets are immediately reclassified into earnings. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items that mature or are sold or terminated, are recognized in income in the same period as the originally hedged transaction was anticipated to affect earnings. The Company utilizes derivative instruments for hedging purposes only and does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Company has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any significant losses as a result of counterparty defaults.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products for anticipated manufacturing requirements and to hedge transportation costs, the Company enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Commodity price risks are hedged generally for periods from 3 to 24 months. Commodities futures contracts meet the hedge criteria and are accounted for as cash flow hedges. Accordingly, gains and losses are included in other comprehensive income and are recognized ratably in cost of sales in the same period that the hedged raw material manufacturing requirements are recorded in cost of sales.

In order to qualify as a hedge of commodity price risk, it must be demonstrated that the changes in fair value of the commodities futures contracts are highly effective in hedging price risks associated with commodity purchases for manufacturing requirements and with transportation costs. The assessment of hedge effectiveness for commodities futures is performed on a quarterly basis by calculating the change in switch values relative to open commodities futures contracts being held and the number of futures contracts needed to price raw material purchases for anticipated manufacturing requirements and to hedge transportation costs. Tracking changes in basis differentials as discussed below also monitors effectiveness. The prices of commodities futures contracts reflect delivery to the same locations where the Company takes delivery of the physical commodities and, therefore, there is no ineffectiveness resulting from differences in location between the derivative and the hedged item. Commodities futures contracts have been deemed to be highly effective in hedging price risks associated with corresponding raw material purchases for manufacturing requirements and transportation costs.

Because of the rollover strategy used for commodities futures contracts, which is required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing requirements as futures contracts are switched from nearby contract positions to contract positions which are required to fix the price of raw material purchases for manufacturing requirements. Hedge ineffectiveness may also result from variability in basis differentials associated with the purchase of raw materials for manufacturing requirements. Hedge ineffectiveness is measured on a quarterly basis and the ineffective portion of gains or losses on commodities futures is recorded currently in cost of sales in accordance with SFAS No. 133, as amended.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts (unrealized gains and losses) are made on a daily basis and are included in accumulated other comprehensive income (loss), net of income taxes, on the Consolidated Balance Sheets. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials, energy requirements and transportation costs in the future. Cash flows from commodities futures contracts are classified as net cash provided from operating activities on the Consolidated Statements of Cash Flows. Futures contracts being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated manufacturing requirements for each commodity. Physical commodity forward purchase contracts meet the SFAS No. 133, as amended, defintion of "normal purchases and sales" and, therefore, are not considered derivative instruments.

The net after-tax impact of cash flow hedging derivatives on comprehensive income (loss) reflected a \$6.5 million loss in 2005, a \$16.3 million gain in 2004 and a \$20.2 million loss in 2003. Net gains and losses on cash flow hedging derivatives were primarily associated with commodities futures contracts. Reclassification adjustments from accumulated other comprehensive income (loss) to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. Reclassification of gains of \$18.1 million, \$26.1 million, and \$51.9 million for 2005, 2004 and 2003, respectively, were associated with commodities futures contracts. A before-tax loss of \$2.0 million resulting from hedge ineffectiveness on commodities futures contracts was recognized in cost of sales for the year ended December 31, 2005. Gains on commodities futures contracts recognized in cost of sales as a result of hedge ineffectiveness were approximately \$.4 million and \$.4 million before tax for the years ended December 31, 2004 and 2003, respectively. No gains or losses on cash flow hedging derivatives were reclassified from accumulated other comprehensive income (loss) into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur. There were no components of gains or losses on cash flow hedging derivatives that were recognized in income because such components were excluded from the assessment of hedge effectiveness. As of December 31, 2005, the amount of net after-tax losses on cash flow hedging derivatives, including foreign exchange forward contracts and options, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months was approximately \$3.6 million, which was primarily associated with commodities futures contracts.

7 (In Part): Comprehensive Income

A summary of the components of comprehensive income is as follows:

(In thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
2005			
Net income			$493,244
Other comprehensive income (loss)			
Foreign currency translation adjustments	$ 17,151	$ —	17,151
Minimum pension liability adjustments, net of tax	(3,617)	1,386	(2,231)
Cash flow hedges			
Gains (losses) on cash flow hedging derivatives	(10,255)	3,791	(6,464)
Reclassification adjustments	(28,435)	10,348	(18,087)
Total other comprehensive loss	$(25,156)	$15,525	(9,631)
Comprehensive income			$483,613
2004			
Net income			$577,901
Other comprehensive income (loss)			
Foreign currency translation adjustments	$ 21,229	$ —	21,229
Minimum pension liability adjustments, net of tax	81	(32)	49
Cash flow hedgest			
Gains (losses) on cash flow hedging derivatives	25,571	(9,314)	16,257
Reclassificition adjustments	(41,222)	15,081	(26,141)
Total other comprehensive income	$ 5,659	$ 5,735	11,394
Comprehensive income			$589,295
2003			
Net income			$441,947
Other comprehensive income (loss)			
Foreign currency translation adjustments	$ 40,938	$ —	40,938
Minimum pension liability adjustments, net of tax	(1,565)	623	(942)
Cash flow hedges			
Gains (losses) on cash flow hedging derivatives	(31,971)	11,732	(20,239)
Reclassification adjustments	(82,012)	30,099	(51,913)
Total other comprehensive loss	$(74,610)	$42,454	(32,156)
Comprehensive income			$409,791

4.32

INTUIT, INC. (JUL)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2002	211,163,641	$2,112	$1,844,595	$(126,107)	$(12,628)	$(3,675)	$511,342	$2,215,639
Components of Comprehensive income								
Net income	—	—	—	—	—	—	343,034	343,034
Other comprehensive income, net of tax	—	—	—	—	—	2,886	—	2,886
Comprehensive net income								345,920
Issuance of common stock upon excercise of options and other	5,564,618	56	—	244,378	—	—	(107,146)	137,268
Issuance of common stock pursuant to Employee Stock Purchase Plan	476,454	5	—	23,550	—	—	(4,982)	18,573
Stock repurchases under stock repurchase programs	(17,940,053)	(180)	—	(813,463)	—	—	—	(813,643)
Repurchase of vested restricted stock	(17,532)	—	—	(684)	—	—	—	(684)
Issuance of common stock pursuant to acquisitions	224,589	2	9,993	—	—	—	—	9,995
Tax benefit from employee stock option transactions	—	—	47,780	—	—	—	—	47,780
Stock bonus awards	—	—	18,082	—	(18,082)	—	—	—
Reduction of deferred stock compensation due to stock option cancellations	—	—	(891)	—	891	—	—	—
Amortization of deferred compensation	—	—	—	—	3,969	—	—	3,969
Balance at July 31, 2003	199,471,717	1,995	1,919,559	(672,326)	(25,850)	(789)	742,248	1,964,837
Componants of comprehensive income:								
Net income	—	—	—	—	—	—	317,030	317,030
Other comprehensive loss, net of tax	—	—	—	—	—	(2,586)	—	(2,586)
Comprehensive net income								314,444
Issuance of common stock upon exercise of options and other	3,611,671	36	—	167,425	—	—	(69,337)	98,124
Issuance of common stock pursuant to Employee Stock Purchase Plan	564,918	6	—	26,560	—	—	(5,550)	21,016
Stock repurchases under stock repurchases programs	(13,540,579)	(136)	—	(609,282)	—	—	—	(609,418)
Repurchases of vested restricted stock	(17,177)	—	—	(766)	—	—	—	(766)
Tax benefit from employee stock option transactions	—	—	27,061	—	—	—	—	27,061
Stock bonus awards and related stock issuance	54	—	1,089	—	(1,089)	—	—	—
Reduction of deferred stock compensation due to stock option cancellations	—	—	(384)	—	384	—	—	—
Amortization of deferred compensation	—	—	—	—	7,121	—	—	7,121
Balance at July 31, 2004	190,090,804	$1,901	$1,947,325	$(1,088,389)	$(19,434)	$(3,375)	$984,391	$1,822,419

(continued)

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2004	190,090,804	$1,901	$1,947,325	$(1,088,389)	$(19,434)	$(3,375)	$984,391	$1,822,419
Components of comprehensive income:								
Net income	—	—	—	—	—	—	381,627	381,627
Other comprehensive income, net of tax	—	—	—	—	—	3,549	—	3,549
Comprehensive net income								385,176
Issuance of common stock upon exercise of options and other	4,811,353	43	—	212,135	—	—	(67,361)	144,822
Issuance of common stock pursuant to Employee Stock Purchase Plan	607,961	6	—	28,139	—	—	(7,170)	20,975
Stock repurchase under stock repurchase programs	(16,224,130)	(162)	—	(709,054)	—	—	—	(709,216)
Repurchase of vested restricted stock	(16,053)	—	—	(671)	—	—	—	(671)
Tex benefit from employee stock option transactions	—	—	26,372	—	—	—	—	26,372
Stock bonus awards and related stock issuance	253	—	2,504	—	(2,504)	—	—	—
Retirement of treasury stock and other	74	—	(7)	7	—	—	—	—
Reduction of deferred stock compensation due to stock option cancellations	—	—	(33)	—	33	—	—	—
Amortization of deferred compensation	—	—	—	—	5,622	—	—	5,622
Balance of July 31, 2006	179,270,062	$1,793	$1,976,161	$(1,557,833)	$(16,283)	$174	$1,291,487	$1,695,499

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents and Investments

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds in all periods presented.

Investments consist of available-for-sale debt securities that we carry at fair value. We use the specific identification method to compute gains and losses on investments. We include unrealized gains and losses on investments, net of tax, in stockholders' equity: Available-for-sale debt securities are classified as current assets based upon our intent and ability to use any and all of these securities as necessary to satisfy the significant short-term liquidity requirements that may arise from the highly seasonal and cyclical nature of our businesses. Because of our significant business seasonality, stock repurchase programs and acquisition opportunities, cash flow requirements may fluctuate dramatically from quarter to quarter and require us to use a significant amount of the investments held as available-for-sale securities. See Note 2.

2 (In Part): Investments and Funds Held for Payroll Customers

Unrealized gains and losses on our available-for-sale debt securities are included in accumulated other comprehensive income (loss) on our balance sheet. Gross unrealized gains and losses on our available-for-sale debt securities were as follows at the dates indicated:

(In thousands)	2005	2004
Gross unrealized gains	$ 31	$ 174
Gross unrealized losses	(969)	(2,678)
Net unrealized gains (losses)	$(938)	$(2,504)

The following table summarizes the fair value and gross unrealized losses related to 115 available-for-sale debt securities, aggregated by type of investment and length of time that individual securities have been in a continuous unrealized loss position, at July 31, 2005:

	In a Loss Position for Less Than 12 Months		In a Loss Position for 12 Months or More		Total in a Loss Position	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	$216,124	$(735)	$26,971	$(137)	$243,095	$(872)
U.S. government securities	9,957	(43)	6,937	(54)	16,894	(97)
	$226,081	$(778)	$33,908	$(191)	$259,989	$(969)

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. At July 31, 2005 we believe that the investments that we hold are not other-than-temporarily impaired. While certain available-for-sale debt securities have fair values that are below cost, we believe that it is probable that principal and interest will be collected in accordance with contractual terms, and that the decline in market value is due to changes In interest rates and not due to increased credit risk.

Realized gains and losses on our available-for-sale debt securities are included in interest and other income on our statement of operations. Gross realized gains and losses on our available-for-sale debt securities were as follows for the periods Indicated:

(In thousands)	2005	2004	2003
Gross realized gains	$ 170	$ 728	$1,885
Gross realized losses	(2,716)	(337)	(49)
Net realized gains (losses)	$(2,546)	$ 391	$1,836

5. Comprehensive Net Income (Loss)

SFAS 130, "*Reporting Comprehensive Income*," establishes standards for reporting and displaying comprehensive net income (loss) and its components in stockholders' equity. SFAS 130 requires the components of other comprehensive income (loss), such as changes in the fair value of available-for-sale securities and foreign currency translation adjustments, to be added to our net income (loss) to arrive at comprehensive income (loss). Other comprehensive income (loss) items have no impact on our net income (loss) as presented on our statement of operations.

The components of accumulated other comprehensive income (loss), net of income taxes, were as follows for the periods indicated:

(In thousands)	Unrealized Gain (Loss) on Investments	Unrealized Gain (Loss) on Marketable Securities	Foreign Currency Translation	Total
Balance at July 31, 2002	$ 2,058	$(4,845)	$ (888)	$(3,675)
Unrealized (loss) gain, net of income tax benefit of $496 and provision of $8,582	(743)	12,873	—	12,130
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $734 and $5,282	(1,102)	(7,923)	—	(9,025)
Translation adjustment	—	—	(219)	(219)
Other comprehensive income (loss)	(1,845)	4,950	(219)	2,886
Balance at July 31, 2003	213	105	(1,107)	(789)
Unrealized (loss) gain, net of income tax benefit of $987 and provision of $180	(1,481)	270	—	(1,211)
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $156	(234)	—	—	(234)
Translation adjustment	—	—	(1,141)	(1,141)
Other comprehensive income (loss)	(1,715)	270	(1,141)	(2,586)
Balance at July 31, 2004	(1,502)	375	(2,248)	(3,375)
Unrealized (loss) gain, net of income tax benefit of $321 and provision of $639	(659)	1,076	—	417
Reclassification adjustment for realized loss included in net income, net of income tax provision of $967	1,579	—	—	1,579
Translation adjustment	—	—	1,553	1,553
Other comprehensive income	920	1,076	1,553	3,549
Balance at July 31, 2005	$ (582)	$ 1,451	$ (695)	$ 174

Section 5: Stockholders' Equity

GENERAL

5.01 This section reviews the presentation of transactions, other than comprehensive income (loss) for the year, affecting stockholders' equity.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

5.02 Paragraph 152 of Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, states that a complete set of financial statements includes a presentation of "results of operations." Paragraph 7 of Accounting Principles Board (APB) Opinion No. 9, *Reporting the Results of Operations*, states that a statement of income and a statement of retained earnings "are designed to reflect" results of operations. As shown in Table 5-1, which summarizes the presentation formats used by the survey companies to present changes in retained earnings, changes in retained earnings are most frequently presented in a Statement of Stockholders' Equity. Examples of statements showing changes in retained earnings are presented throughout this section.

5.03

TABLE 5-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	2005	2004	2003	2002
Statement of stockholders' equity	586	584	586	581
Separate statement of retained earnings	4	5	7	9
Combined statement of income and retained earnings	3	3	2	3
Schedule in notes	7	8	5	7
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

5.04 Table 5-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 57% 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 24% of the survey companies made a similar disclosure for cash dividends paid to preferred stock shareholders.

5.05 Certain stock purchase rights enable the holders of such rights to purchase additional equity in a company if an outside party acquires or tenders for a substantial minority interest in the subject Company.

5.06 Examples of distributions to shareholders follow.

5.07

TABLE 5-2: DIVIDENDS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	220	221	213	219
Per share amount not disclosed in retained earnings statements	169	175	157	135
Total	**389**	**396**	**370**	**354**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	11	15	22	22
Per share amount not disclosed in retained earnings statements	35	35	32	38
Total	**46**	**50**	**54**	**60**
Stock Dividends	**2**	**3**	**4**	**6**
Dividends in Kind	**3**	**8**	**7**	**10**
Stock Purchase Rights	**3**	**4**	**1**	**4**

Cash Dividends

5.08

OWENS-ILLINOIS, INC. (DEC)

Consolidated Share Owners' Equity

(Dollars in millions)	2005	2004	2003
Convertible preferred stock			
Balance at beginning of year	$ 452.5	$ 452.5	$ 452.5
Balance at end of year	452.5	452.5	452.5
Common stock			
Balance at beginning of year	1.6	1.6	1.6
Issuance of common stock	0.1		
Balance at end of year	1.7	1.6	1.6
Capital in excess of par value			
Balance at beginning of year	2,261.1	2,229.3	2,224.9
Issuance of common stock	35.9	31.8	4.4
Balance at end of year	2,297.0	2,261.1	2,229.3
Treasury stock			
Balance at beginning of year	(241.3)	(247.6)	(247.6)
Reissuance of common stock	5.3	6.3	
Balance at end of year	(236.0)	(241.3)	(247.6)
Retained deficit			
Balance at beginning of year	(975.3)	(1,189.3)	(177.0)
Cash dividends on convertible preferred stock—$2.375 per share	(21.5)	(21.5)	(21.5)
Net earnings (loss)	(558.6)	235.5	(990.8)
Balance at end of year	(1,555.4)	(975.3)	(1,189.3)
Accumulated other comprehensive income (loss)			
Balance at beginning of year	45.7	(243.1)	(583.6)
Foreign currency translation adjustments	(288.9)	317.4	361.0
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Balance at end of year	(235.9)	45.7	(243.1)
Total share owners' equity	$ 723.9	$ 1,544.3	$ 1,003.4
Total comprehensive income (loss)			
Net earnings (loss)	$ (558.6)	$ 235.5	$ (990.8)
Foreign currency translation adjustments	(288.9)	317.4	361.0
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Total comprehensive income (loss)	$ (840.2)	$ 524.3	$ (650.3)

5.09

WYETH (DEC)

Consolidated Statements of Changes in Stockholders' Equity

(In thousands except per share amounts)	$2.00 Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2003	$46	$442,019	$4,582,773	$ 3,286,645	$(155,571)	$ 8,155,912
Net income				2,051,192		2,051,192
Currency translation adjustments					691,362	691,362
Unrealized losses on derivative contracts, net					(32,887)	(32,887)
Unrealized gains on marketable securities, net					7,780	7,780
Realized gain on sale of Amgen stock reclassified to net income					(515,114)	(515,114)
Minimum pension liability adjustments					(22,057)	(22,057)
Comprehensive income, net of tax						2,180,276
Cash dividends declared						
Preferred stock (per share: $2.00)				(35)		(35)
Common stock (per share: $0.92)				(1,223,123)		(1,223,123)
Common stock issued for stock options		2,058	124,837			126,895
Other exchanges	(4)	74	56,780	(2,394)		54,456
Balance at December 31, 2003	42	444,151	4,764,390	4,112,285	(26,487)	9,294,381
Net income				1,233,997		1,233,997
Currency translation adjustments					451,892	451,892
Unrealized gains on derivative contracts, net					10,354	10,354
Unrealized losses on marketable securities, net					(8,226)	(8,226)
Minimum pension liability adjustments					39,619	39,619
Comprehensive income, net of tax						1,727,636
Cash dividends declared						
Preferred stock (per share: $2.00)				(33)		(33)
Common stock (per share: $0.92)				(1,227,001)		(1,227,001)
Common stock issued for stock options		779	56,694			57,473
Other exchanges	(2)	101	(4,060)	(592)		(4,553)
Balance at December 31, 2004	40	445,031	4,817,024	4,118,656	467,152	9,847,903
Net income				3,656,298		3,656,298
Currency translation adjustments					(492,784)	(492,784)
Unrealized gains on derivative contracts, net					32,518	32,518
Unrealized losses on marketable securities, net					(4,128)	(4,128)
Minimum pension liability adjustments					(67,483)	(67,483)
Comprehensive income, net of tax						3,124,421
Cash dividends declared:						
Preferred stock (per share: $2.00)				(30)		(30)
Common stock (per share: $0.94)				(1,259,368)		(1,259,368)
Common stock issued for stock options		2,637	232,355			234,992
Other exchanges	(3)	115	47,849	(1,510)		46,451
Balance at December 31, 2005	$37	$447,783	$5,097,228	$ 6,514,046	$ (64,725)	$11,994,369

Dividends-in-Kind

5.10

DEAN FOODS COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Other Retained Earnings	Accumulated Total Comprehensive Income (Loss)	Stockholders' Equity	Comprehensive Income
Balance, January 1, 2003	132,961,440	$ 1,330	$ 979,113	$ 718,555	$(55,705)	$1,643,293	
Issuance of common stock	5,798,235	58	121,592	—	—	121,650	
Exchange of trust issued preferred securities	22,901,839	229	582,757	—	—	582,986	
Purchase and retirement of treasury stock	(6,668,300)	(67)	(185,437)	—	—	(185,504)	
Net income	—	—	—	355,703	—	355,703	$355,703
Other comprehensive income							
Change in fair value of derivative instruments	—	—	—	—	(7,650)	(7,650)	(7,650)
Amounts reclassified to income statement related to derivatives	—	—	—	—	25,610	25,610	25,610
Cumulative translation adjustment	—	—	—	—	18,247	18,247	18,247
Minimum pension liability adjustment	—	—	—	—	(10,356)	(10,356)	(10,356)
Comprehensive income							$381,554
Balance, December 31, 2003	154,993,214	1,550	1,498,025	1,074,258	(29,854)	2,543,979	
Issuance of common stock	3,539,783	35	86,437	—	—	86,472	
Horizon Organic stock option conversion	—	—	20,635	—	—	20,635	
Purchase and retirement of treasury stock	(9,310,000)	(93)	(296,925)	—	—	(297,018)	
Net income	—	—	—	285,374	—	285,374	$285,374
Other comprehensive income							
Change in fair value of derivative instruments	—	—	—	—	(717)	(717)	(717)
Amounts reclassified to income statement related to derivatives	—	—	—	—	20,723	20,723	20,723
Cumulative translation adjustment	—	—	—	—	17,313	17,313	17,313
Minimum pension liability adjustment					(13,162)	(13,162)	(13,162)
Comprehensive income							$309,531
Balance, December 31, 2004	149,222,997	1,492	1,308,172	1,359,632	(5,697)	2,663,599	
Issuance of common stock	3,867,493	39	93,637	—	—	93,676	
Share dividend of TreeHouse common stock	—	—	—	(492,613)	—	(492,613)	
Purchase and retirement of treasury stock	(18,881,300)	(189)	(699,689)	—	—	(699,878)	
Net income	—	—	—	327,531	—	327,531	$327,531
Other comprehensive income							
Change in fair value of derivative instruments	—	—	—	—	11,290	11,290	11,290
Amounts reclassified to income statement related to derivatives	—	—	—	—	8,510	8,510	8,510
Cumulative translation adjustment	—	—	—	—	(28,220)	(28,220)	(28,220)
Minimum pension liability adjustment	—	—	—	—	(11,816)	(11,816)	(11,816)
Comprehensive income							$307,295
Balance, December 31, 2005	134,209,190	$ 1,342	$ 702,120	$1,194,550	$ (25,933)	$1,872,079	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Discontinued Operations (In Part)

Spin-off of TreeHouse (In Part)

On January 25, 2005, we formed TreeHouse. At that time, TreeHouse sold shares of common stock to certain members of a newly retained management team, who purchased approximately 1.67% of the outstanding common stock of TreeHouse, for an aggregate purchase price of $10 million. The proceeds from this transaction were distributed to us as a dividend and are reflected within stockholders' equity in our Consolidated Balance Sheet.

On June 27, 2005, we completed the Spin-off. Immediately prior to the Spin-off, we transferred to TreeHouse (1) the businesses previously conducted by our Specialty Foods Group segment, (2) the *Mocha Mix* and *Second Nature* businesses previously conducted by WhiteWave Foods Company, and (3) the foodservice salad dressings businesses previously conducted by the Dairy Group and WhiteWave Foods Company. The Spin-off was effected by means of a share dividend of the TreeHouse common stock held by us to our stockholders of record on June 20, 2005 (the "Record Date"). In the distribution, our stockholders received one share of TreeHouse common stock for every five shares of our common stock held by them on the Record Date.

Prior to the Spin-off, we entered into certain agreements with TreeHouse to define our ongoing relationship. These arrangements include agreements that define our respective responsibilities for taxes, employee matters and all other liabilities and obligations related to the transferred businesses. In addition, we entered into a co-pack agreement under which we will continue to manufacture certain products for TreeHouse and TreeHouse will continue to manufacture certain products for us for a transitional period. Our anticipated future sales to and purchases from TreeHouse are not expected to be significant. Following the Spin-off, we have no ownership interest in TreeHouse.

Prior to the Spin-off, we transferred the obligation, net of estimated related plan assets, for pension and other post-retirement benefit plans of transferred employees and retirees to TreeHouse. During the fourth quarter of 2005, we finalized the preliminary computations and transferred a portion of the plan assets related to such obligations. The remaining transfer of plan assets will be made in the first quarter of 2006.

Stock Purchase Rights

5.11

NEWS CORPORATION (JUN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Shareholders' Equity

Stockholder Rights Plan

In fiscal 2005 the Company's Board of Directors adopted a stockholder rights plan (the "Rights Plan").

Under the Rights Plan, each stockholder of record received a distribution of one Right for each share of voting and non-voting common stock of the Company (the "Rights").

Initially, the Rights will be represented by the Company's common stock certificates, will not be traded separately from the common stock and will not be exercisable.

The Rights will become exercisable only if a person or group obtains ownership (defined to include stock which a person has the right to acquire, regardless of whether such right is subject to the passage of time or the satisfaction of conditions), or announces a tender offer that would result in ownership of 15% or more of the Company's voting common stock, at which time each Right would enable the holder of such Right to buy additional stock of the Company. Following the acquisition of 15% or more of the Company's voting common stock, the holders of Rights (other than the acquiring person or group) will be entitled to purchase from the Company shares of the Company's voting or non-voting common stock, as applicable, at half price, and in the event of a subsequent merger or other acquisition of the Company, to buy shares of common stock of the acquiring entity at half price. The Rights Plan grandfathered holdings of voting common stock and disclosed contracts permitting the acquisition of voting common stock in each case that existed at the time the Right Plan was adopted, including the then existing holdings of the Murdoch family and affiliated entities and Liberty Media Corporation ("Liberty"), but any additional acquisitions (subject to a 1% cushion granted to all exempt holders) by the Murdoch family and its affiliated entities or by Liberty and its affiliated entities would trigger the Rights. On August 10, 2005, the Company announced that the Board of Directors determined to extend the expiration date of the Rights Plan for an additional two-year period, expiring in November 2007. Each Right permits the holder to spend $80 for the purchases described above.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

5.12 Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. SFAS No 16, *Prior Period Adjustments*, as amended by SFAS No. 109, *Accounting for Income Taxes*, stipulates that only corrections of errors are properly accounted for as prior period adjustments.

5.13 Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20, *Accounting Changes*, requires that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. *SFAS No. 154* replaces *APB Opinion No. 20. SFAS No. 154* requires, unless impracticable or otherwise specified by an applicable authoritative pronouncement, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective application is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, retrospective application involves the following:

- Financial statements for each individual prior period presented shall be adjusted to reflect the period-specific effects of applying the new accounting principle.
- The cumulative effect of the change on periods prior to those presented shall be reflected in the carrying amount of assets and liabilities as of the beginning of the first period presented.
- An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate component of equity) for that period.

5.14 Table 5-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. Prior to 2002, a pooling of interests was the most common reason for an adjustment to retained earnings. SFAS No. 141, *Business Combinations*, issued in 2001, supersedes APB Opinion No. 16, *Business Combinations. SFAS No. 141* stipulates that the pooling-of-interests method not be used for business combinations initiated after June 30, 2001.

5.15

TABLE 5-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Prior period adjustments	10	19	4	6
Accounting changes	10	6	4	5
Poolings of interests	—	—	—	2
Other—described	—	1	—	1

Prior Period Adjustment

5.16

THE SHAW GROUP INC. (AUG)

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except share amounts)	Common Stock Shares	Treasury Stock Shares	Common Stock Amount	Treasury Stock Amount	Unearned Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, September 1, 2002, as previously reported	43,002,677	(2,161,050)	$ 494,581	$(52,076)	$ —	$(16,193)	$265,945	$692,257
Adjusted for employment agreement							(10,400)	(10,400)
Balance, September 1, 2002, as restated	43,002,677	(2,161,050)	494,581	(52,076)	—	(16,193)	255,545	681,857
Comprehensive income:								
Net income (loss)	—	—	—	—	—	—	20,866	20,866
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	2,546	—	2,546
Change in unrealized net gain (losses) on hedging activities, net of tax expense of $2	—	—	—	—	—	(5)	—	(5)
Unrealized net gains on securities available for sale, net of tax expense of $241	—	—	—	—	—	385	—	385
Less:								
Reclassification adjustments for losses included in net income	—	—	—	—	—	(259)	—	(259)
Additional pension liability not yet recognized in net periodic pension expense, net of tax benefit of $3,728	—	—	—	—	—	(7,014)	—	(7,014)
Comprehensive income (loss)	—	—	—	—	—	—	—	16,519
Exercise of options	119,194	—	500	—	—	—	—	500
Tax benefit on exercise of options	—	—	51	—	—	—	—	51
Stock-based compensation	—	—	1,016	—	(216)	—	—	800
Purchases and retirement of treasury stock	—	(3,170,605)	—	(47,837)	—	—	—	(47,837)
Balance, August 31, 2003	43,121,871	(5,331,655)	$ 496,148	$(99,913)	$ (216)	$(20,540)	$276,411	$651,890
Net income (loss)	—	—	—	—	—	—	(28,975)	(28,975)
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	2,938	—	2,938
Change in unrealized net gain (losses) on hedging activities, net of tax expense of $2	—	—	—	—	—	222	—	222
Reduction in pension liability, not yet recognized in net periodic pension expense, net of tax of $936	—	—	—	—	—	2,223	—	2,223
Comprehensive income (loss)	—	—	—	—	—	—	—	(23,592)
Shares issued in public equity offerings	25,346,000	—	245,966	—	—	—	—	245,966
Exercise of options	38,750	—	191	—	—	—	—	191
Tax benefit on exercise of options	—	—	49	—	—	—	—	49
Stock-based compensation	594,872	—	7,723	—	(7,723)	—	—	—
Amortization of stock-based compensation	—	—	—	—	1,867	—	—	1,867
Balance, August 31, 2004	69,101,493	(5,331,655)	$ 750,077	$(99,913)	$ (6,072)	$(15,157)	$247,436	$876,371

(continued)

(Dollars in thousands, except share amounts)	Common Stock Shares	Treasury Stock Shares	Common Stock Amount	Treasury Stock Amount	Unearned Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, August 31, 2004	69,101,493	(5,331,655)	$ 750,077	$(99,913)	$ (6,072)	$(15,157)	$247,436	$ 876,371
Net income (loss)	—	—	$ —	$ —	$ —	$ —	$ 16,376	$ 16,376
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	(3,872)	—	(3,872)
Change in unrealized net gains (losses) on hedging activities, net of tax expense of $5	—	—	—	—	—	(210)	—	(210)
Additional pension liability, not yet recognized in net periodic pension expense, net of tax of $—	—	—	—	—	—	(12,513)	—	(12,513)
Comprehensive, income (loss)	—	—	—	—	—	—	—	(219)
Shares issued in public equity offerings	14,067,500	—	260,270	—	—	—	—	260,270
Exercise of options	378,715	—	3,248	—	—	—	—	3,248
Tax benefit on exercise of options	—	—	563	—	—	—	—	563
Stock-based, compensation	741,296	—	9,445	—	(9,134)	—	—	311
Amortization of stock-based compensation	—	—	—	—	4,009	—	—	4,009
Balance, August 31, 2005	84,289,004	(5,331,655)	$1,023,603	$(99,913)	$(11,197)	$(31,752)	$263,812	$1,144,553

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

In addition, the results presented herein for fiscal 2004 and fiscal 2003 have been restated for the following two items:

- as a result of the correction of our accounting treatment of our non-compete clause of an employment agreement with our Chief Executive Officer, which reduced retained earnings and other long-term assets and increased accrued liabilities, other current assets and current deferred income taxes; and
- as a result of an accounting error, which was an overstatement of operating expenses related to employee benefit costs for Shaw Energy Delivery Services (EDS), a subsidiary acquired by Shaw in December of 2003, which effected fiscal 2004.

See Note 21 to our consolidated financial statements for further details.

Note 21. Prior Year Restatement of Consolidated Financial Statements

These accompanying consolidated financial statements include the impact of a restatement of the accounting for a non-compete clause of an employment agreement that we entered into with our Chief Executive Officer in fiscal 2001. At that time, it was determined that the cost of the non-compete clause should be expensed in the future, beginning with the commencement of the ten-year non-compete period upon termination of employment. On October 31, 2005, we concluded that the appropriate accounting would have been to expense the cost of the non-compete clause in fiscal 2001.

The accompanying consolidated financial statements reflect the impact of the inclusion of the net present value of the estimated cost of the non-compete clause. The cost of the non-compete clause includes the payment of cash on the date of termination of $15.0 million and the use of a mid-sized jet aircraft for up to 150 hours per year. We have estimated the net present value of the direct incremental cost of the aircraft use to be $2.1 million. Therefore, the impact of the restatement was to record additional compensation expense in fiscal 2001 of $17.1 million, net of the income taxes of $6.7 million, resulting in a reduction of net income and retained earnings of $10.4 million in fiscal 2001 and reduction in retained earnings for all subsequent periods.

On July 6, 2005, the Company announced that it would restate its financial statements for the fiscal year ended August 31, 2004 and associated quarters for fiscal 2004, along with the financial statements for the six months ended February 28, 2005 to correct an accounting error.

The accounting error was an overstatement of operating expenses related to employee benefit costs for Shaw Energy Delivery Services (EDS), a business unit acquired by Shaw in December 2003. Following the acquisition of EDS, from January 2004 through December 2004, Shaw recorded excess costs of revenues associated with EDS's operations. In December 2004, Shaw converted EDS's accounting system to Shaw's accounting systems which corrected the issue from that point forward. The effect of the restatements on the financial results is to increase reported net income over this period by $2.6 million, after taxes, impacting only the E&C segment. This restatement affected the operating results of each quarter during the period, but had no impact on revenues, operating cash flows, or compliance with debt covenants for any quarterly or annual period. There was no restatement to the results of fiscal 2003 as a result of this accounting error.

Change in Accounting Principle

5.17

KOHL'S CORPORATION (JAN)

Consolidated Statement of Changes in Shareholders' Equity

(In thousands)	Common Stock Shares	Amount	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balance at February 1, 2003 (previously reported)	337,322	$3,373	$1,082,277	$2,393,692	$3,479,342
Cumulative effect of restatement on prior years (see Note 2)	—	—	167,047	(114,663)	52,384
Balance at February 1, 2003 (as restated, see Note 2)	337,322	3,373	1,249,324	2,279,029	3,531,726
Exercise of stock options	2,819	28	46,229	—	46,257
Income tax benefit from exercise of stock options	—	—	31,719	—	31,719
Share-based compensation expense	—	—	55,358	—	55,358
Net income	—	—	—	546,463	546,463
Balance at January 31, 2004 (as restated, see Note 2)	340,141	3,401	1,382,630	2,825,492	4,211,523
Exercise of stock options	3,204	32	47,062	—	47,094
Income tax benefit from exercise of stock options	—	—	28,505	—	28,505
Share-based compensation expense	—	—	43,375	—	43,375
Net income	—	—	—	703,401	703,401
Balance at January 29, 2005 (as restated, see Note 2)	343,345	3,433	1,501,572	3,528,893	5,033,898
Exercise of stock options	1,743	17	22,841	—	22,858
Income tax benefit from exercise of stock options	—	—	14,458	—	14,458
Share-based compensation expense	—	—	40,639	—	40,639
Unearned compensation amortization	—	—	3,525	—	3,525
Net income	—	—	—	841,960	841,960
Balance at January 28, 2006	345,088	$3,450	$1,583,035	$4,370,853	$5,957,338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Stock Options

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS No. 123R), "Share Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the "modified retrospective" method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnote disclosures. See Note 2 for the effect of the adoption on the fiscal 2004 and 2003 results.

2. Restatement of Financial Statements

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the "modified retrospective" method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnotes.

Below is a summary of the effects of the restatement on the Company's consolidated balance sheet as of January 29, 2005, as well as the effects of these changes on the Company's consolidated statements of income and consolidated statements of cash flows for fiscal years 2004 and 2003. The cumulative effect of the restatement relating to fiscal years 1995 through 2002 is an increase in paid-in capital of $167.0 million, an increase in deferred income taxes of $52.3 million and an increase in selling, general and administrative expenses (S,G&A) of $185.9 million. As a result, retained earnings at January 31, 2004 decreased by $114.7 million.

(In thousands)	Consolidated Balance Sheets: As Previously Reported	Adjustments	As Restated
January 29, 2005			
Deferred income taxes	$ 296,551	$ (67,170)	$ 229,381
Paid-in capital	1,258,326	243,246	1,501,572
Retained earnings	3,704,969	(176,076)	3,528,893

(In thousands, except per share data)	Consolidated Statement of Income As Previously Reported	Adjustments	As Restated
Fiscal year ended January 29, 2005			
Selling, general and administrative expenses	$2,539,621	$ 43,375	$2,582,996
Operating income	1,236,702	(43,375)	1,193,327
Income before income taxes	1,174,250	(43,375)	1,130,875
Provision for income taxes	443,870	(16,396)	427,474
Net income	730,380	(26,979)	703,401
Net income per share			
Basic	$ 2.14	$ (0.08)	$ 2.06
Diluted	$ 2.12	$ (0.08)	$ 2.04

(In thousands, except per share data)	Consolidated Statement of Income As Previously Reported	Adjustments	As Restated
Fiscal year ended January 31, 2004			
Selling, general and administrative expenses	$2,101,672	$ 55,358	$2,157,030
Operating income	1,006,802	(55,358)	951,444
Income before income taxes	933,871	(55,358)	878,513
Provision for income taxes	352,974	(20,924)	332,050
Net income	580,897	(34,434)	546,463
Net income per share			
Basic	$ 1.71	$ (0.10)	$ 1.61
Diluted	$ 1.69	$ (0.10)	$ 1.59

(In thousands)	Consolidated Statement of Cash Flows As Previously Reported	Adjustments	As Restated
Fiscal year ended January 29, 2005			
Net income	$730,380	$(26,979)	$703,401
Share-based compensation	—	43,375	43,375
Excess tax benefits from share-based compensation	—	(10,563)	(10,563)
Deferred income taxes	82,430	(4,156)	78,274
Income taxes	82,400	(12,240)	70,160
Net cash provided by operating activities	947,658	(10,563)	937,095
Excess tax benefits from share-based compensation	—	10,563	10,563
Net cash provided by financing activities	33,802	10,563	44,365

(In thousands)	Consolidated Statement of Cash Flows As Previously Reported	Adjustments	As Restated
Fiscal year ended January 31, 2004			
Net income	$580,897	$(34,434)	$546,463
Share-based compensation	—	55,358	55,358
Excess tax benefits from share-based compensation	—	(14,797)	(14,797)
Deferred income taxes	65,259	(10,630)	54,629
Income taxes	35,317	(10,294)	25,023
Net cash provided by operating activities	754,461	(14,797)	739,664
Excess tax benefits from share-based compensation	—	14,797	14,797
Net cash used in financing activities	(316,281)	14,797	(301,484)

OTHER CHANGES IN RETAINED EARNINGS

5.18 In addition to opening balance adjustments, the retained earnings account is affected by direct charges and credits. The most frequent direct charges to retained earnings are net loss for the year, losses on treasury stock transactions, and cash or stock dividends. The most common direct credit to retained earnings is net income for the year. Direct charges and credits—other than net loss, net income, dividends, and stock splits—are summarized in Table 5-4. Examples of such charges and credits follow.

5.19

TABLE 5-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies 2005	2004	2003	2002
Charges				
Purchase or retirement of capital stock	78	67	69	64
Treasury stock issued for less than cost	28	39	38	32
Preferred stock accretion	—	2	4	4
Other—described	23	22	10	13
Credits				
Tax benefit on dividends paid to ESOP	6	5	9	10
Tax benefit on stock option exercise	6	3	4	3
Other—described	23	19	29	28

Treasury Stock Transactions

5.20

EASTMAN KODAK COMPANY (DEC)

Consolidated Statement of Shareholders' Equity

(In millions, except share and per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unvested Stock	Treasury Stock	Total
Shareholders' equity December 31, 2002	$978	$849	$7,611	$(771)	$—	$(5,890)	$2,777
Net earnings	—	—	253	—	—	—	253
Other comprehensive income (loss):							
Unrealized gains on available-for-sale securities ($18 million pre-tax)	—	—	—	11	—	—	11
Unrealized losses arising from hedging activity ($42 million pre-tax)	—	—	—	(25)	—	—	(25)
Reclassification adjustment for hedging related gains included in net earnings ($29 million pre-tax)	—	—	—	19	—	—	19
Currency translation adjustments	—	—	—	406	—	—	406
Minimum pension liability adjustment ($167 million pre-tax)	—	—	—	122	—	—	122
Other comprehensive income	—	—	—	533	—	—	533
Comprehensive income							786
Cash dividends declared ($1.15 per common share)	—	—	(330)	—	—	—	(330)
Treasury stock issued for stock option exercises (337,940 shares)	—	—	(10)	—	—	21	11
Unvested stock issuances (309,552 shares)	—	—	(9)	—	(8)	17	—
Tax reductions—employee plans	—	1	—	—	—	—	1
Shareholders' equity December 31, 2003	$978	$850	$7,515	$(238)	$(8)	$(5,852)	$3,245
Net earnings	—	—	556	—	—	—	556
Other comprehensive income (loss):							
Unrealized losses on available-for-sale seurities ($18 million pre-tax)	—	—	—	(11)	—	—	(11)
Unrealized gains arising from hedging activity ($8 million pre-tax)	—	—	—	5	—	—	5
Reclassification adjustment for hedging related gains included in net earnings ($11 million pre-tax)	—	—	—	8	—	—	8
Currency translation adjustments	—	—	—	228	—	—	228
Minimum pension liability adjustments ($126 million pre-tax)	—	—	—	(82)	—	—	(82)
Other comprehensive income	—	—	—	148	—	—	148
Comprehensive income							704
Cash dividends declared ($.50 per common share)	—	—	(143)	—	—	—	(143)
Treasury stock issued for stock option exercises (105,323 shares)	—	—	(5)	—	—	7	2
Unvested stock issuances (10,944 shares)	—	—	(1)	—	3	1	3
Reclassification of stock-based compensation awards under SFAS No. 123R adoption	—	9	—	—	—	—	9
Shareholders' equity December 31, 2004	$978	$859	$7,922	$ (90)	$(5)	$(5,844)	$3,820

(continued)

(In millions, except share and per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unvested Stock	Treasury Stock	Total
Shareholders' equity December 31, 2004	$978	$859	$7,922	$ (90)	$(5)	$(5,844)	$3,820
Net loss	—	—	(1,362)	—	—	—	(1,362)
Other comprehensive income (loss):							
Unrealized losses on available-for-sale securities ($9 million pre-tax)	—	—	—	(8)	—	—	(8)
Unrealized gains arising from hedging activity ($21 million pre-tax)	—	—	—	21	—	—	21
Reclassification adjustment for hedging related gains included in net earnings ($15 million pre-tax)	—	—	—	(15)	—	—	(15)
Currency translation adjustments	—	—	—	(219)	—	—	(219)
Minimum pension liability adjustment ($223 million pre-tax)	—	—	—	(156)	—	—	(156)
Other comprehensive income	—	—	—	(377)	—	—	(377)
Comprehensive income							(1,739)
Cash dividends declared ($.50 per common share)	—	—	(144)	—	—	—	(144)
Recognition of equity-based compensation expense	—	14	—	—	—	—	14
Treasury stock issued for stock option exercises (357,345 shares)	—	—	(10)	—	—	22	12
Unvested stock issuances (169,040 shares)	—	—	(4)	—	(1)	9	4
Shareholders' equity December 31, 2005	$978	$873	$6,402	$(467)	$(6)	$(5,813)	$1,967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 (In Part): Stock Option and Compensation Plans

Cash received for option exercises for the years ended December 31, 2005, 2004 and 2003 was $12 million, $5 million and $12 million, respectively. The actual tax benefit realized for the tax deductions from option exercises was not material for 2005, 2004 or 2003.

5.21

THE TORO COMPANY (OCT)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance as of October 31, 2002	$48,684	$337,445	$(12,603)	$373,526	
Cash dividends paid on common stock	—	(6,005)	—	(6,005)	
Issuance of 960,440 shares under stock compensation plans	960	15,038	—	15,998	
Contribution of stock to a deferred compensation trust	—	2,683	—	2,683	
Purchase of 866,690 shares of common stock	(866)	(17,860)	—	(18,726)	
Excess tax benefits from stock options	—	2,642	—	2,642	
Minimum pension liability adjustment, net of tax	—	—	(730)	(730)	(730)
Foreign currency translation adjustments	—	—	2,342	2,342	2,342
Unrealized loss on derivative instruments, net of tax	—	—	(1,827)	(1,827)	(1,827)
Net earnings	—	81,620	—	81,620	81,620
Total comprehensive income					$81,405
Balance as of October 31, 2003	$48,778	$415,563	$(12,818)	$451,523	
Cash dividends paid on common stock	(32)	(5,807)	—	(5,839)	
Issuance of 1,560,128 shares under stock compensation plans	1,560	25,701	—	27,261	
Contribution of stock to a deferred compensation trust	—	3,496	—	3,496	
Purchase of 5,270,814 shares of common stock	(5,270)	(164,551)	—	(169,821)	
Excess tax benefits from stock options	—	9,857	—	9,857	
Minimum pension liability adjustment, net of tax	—	—	156	156	156
Foreign currency translation adjustments	—	—	771	771	771
Unrealized gain on derivative instruments, net of tax	—	—	749	749	749
Net earnings	—	102,666	—	102,666	102,666
Total comprehensive income					$104,342
Balance as of October 31, 2004	$45,036	$386,925	$(11,142)	$420,819	
Cash dividends paid on common stock	—	(10,755)	—	(10,755)	
Issuance of 784,610 shares under stock compensation plans	785	13,374	—	14,159	
Contribution of stock to a deferred compensation trust	—	3,151	—	3,151	
Purchase of 3,922,805 shares of common stock	(3,922)	(153,050)	—	(156,972)	
Excess tax benefits from stock options	—	5,989	—	5,989	
Minimum pension liability adjustment, net of tax	—	—	(43)	(43)	(43)
Foreign currency translation adjustments	—	—	(2,395)	(2,395)	(2,395)
Unrealized gain on derivative instruments, net of tax	—	—	1,999	1,999	1,999
Net earnings	—	114,082	—	114,082	114,082
Total comprehensive income					$113,643
Balance as of October 31, 2005	$41,899	$359,716	$(11,581)	$390,034	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stockholders' Equity

Stock Repurchase Program

In March 2004, the company's Board of Directors authorized the repurchase of 1,000,000 shares of the company's common stock. In May 2004, the Board of Directors authorized an additional 2,000,000 shares for repurchase. In September 2004, the Board of Directors authorized an additional 1,000,000 shares for repurchase, which was doubled to 2,000,000 shares as a result of the stock split effective March 28, 2005. In July 2005, the Board of Directors authorized the repurchase of an additional 2,000,000 shares. During fiscal 2005 and 2004, Toro paid $157.0 million and $169.8 million to repurchase 3,922,805 shares and 5,270,814 shares, respectively. As of October 31, 2005, 1,846,189 shares remained authorized for repurchase.

Tax Benefit From ESOP Dividends

5.22

CVS CORPORATION (DEC)

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
(In millions)	2005	2004	2003	2005	2004	2003
Preference stock						
Beginning of year	4.3	4.5	4.7	$ 228.4	$ 242.7	$ 250.4
Conversion to common stock	(0.1)	(0.2)	(0.2)	(5.8)	(14.3)	(7.7)
End of year	4.2	4.3	4.5	222.6	228.4	242.7
Common stock						
Beginning of year	828.6	820.4	818.6	8.3	8.2	8.2
Stock options exercised and awards	10.2	8.2	1.8	0.1	0.1	—
End of year	838.8	828.6	820.4	8.4	8.3	8.2
Treasury stock						
Beginning of year	(26.6)	(29.6)	(32.4)	(385.9)	(428.6)	(469.5)
Purchase of treasury shares	—	—	—	(1.7)	(0.8)	(0.5)
Conversion of preference stock	0.5	1.2	0.6	7.3	17.9	9.6
Employee stock purchase plan issuance	1.6	1.8	2.2	23.8	25.6	31.8
End of year	(24.5)	(26.6)	(29.6)	(356.5)	(385.9)	(428.6)
Guaranteed ESOP obligation						
Beginning of year				(140.9)	(163.2)	(194.4)
Reduction of guranteed ESOP obligation				26.9	22.3	31.2
End of year				(114.0)	(140.9)	(163.2)
Capital surplus						
Beginning of year				1,687.3	1,553.1	1,542.5
Conversion of preference stock				(1.5)	(3.6)	(1.9)
Stock option activity and awards				188.8	119,4	9.2
Tax benefit on stock options and awards				47.8	18.4	3.3
End of year				1,922.4	1,687.3	1,553.1
Accumulated other comprehensive loss						
Beginning of year				(55.5)	(36.9)	(44.6)
Recognition of unrealized gain/(loss) on derivatives				2.9	(19.8)	—
Minimum pension liability adjustment				(37.7)	1.2	7.7
End of year				(90.3)	(55.5)	(36.9)
Retained earnings						
Beginning of year				5,645.5	4,846.5	4,104.4
Net earnings				1,224.7	918.8	847.3
Preference stock dividends				(16.2)	(16.6)	(17.7)
Tax benefit on preference stock dividends				2.1	2.4	3.1
Common stock dividends				(117.5)	(105.6)	(90.6)
End of year				6,738.6	5,645.5	4,846.5
Total shareholders'equity				$8,331.2	$6,987.2	$6,021.8
Comprehensive income						
Net earnings				$1,224.7	$ 918.8	$ 847.3
Recognition of unrealized gain/(loss) on derivatives				2.9	(19.8)	—
Minimum pension liability, net of income tax				(37.7)	1.2	7.7
Comprehensive income				$1,189.9	$ 900.2	$ 855.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Stock Ownership Plan

The Company sponsors a defined contribution Employee Stock Ownership Plan (the "ESOP") that covers full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt, and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 4.628 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan.

As of December 31, 2005, 4.2 million shares of ESOP Preference Stock were outstanding, of which 3.0 million shares were allocated to participants and the remaining 1.2 million shares were held in the ESOP Trust for future allocations.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

Following is a summary of the ESOP activity for the respective years:

(In millions)	2005	2004	2003
ESOP expense recognized	$22.7	$19.5	$30.1
Dividends paid	16.2	16.6	17.7
Cash contributions	22.7	19.5	30.1
Interest payments	12.0	13.9	16.6
ESOP shares allocated	0.3	0.3	0.4

Reporting Lag Elimination

5.23

BECKMAN COULTER, INC. (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In millions, except amounts per share)	2005	2004	2003
Common stock			
Beginning of year	$ 6.7	$ 6.5	$ 6.1
Shares issued under stock option and benefit plans	—	0.2	0.4
End of year	6.7	6.7	6.5
Additional paid-in capital			
Beginning of year	414.7	327.5	259.4
Shares issued under stock option and benefit plans	18.4	68.8	56.2
Tax benefit from exercise of non-quantified stock options	16.7	18.4	11.9
End of year	449.8	414.7	327.5
Retained earnings			
Beginning of year	820.8	639.9	457.4
Net income	150.6	210.9	207.2
Elimination of international lag (see Note 1)	(3.1)	—	—
Dividends to stockholders, $0.56 per share, $0.48 share and $0.40 per share during 2005, 2004 and 2003 respectively	(35.4)	(30.0)	(24.7)
End of year	932.9	820.8	639.9
Accumulated other comprehensive income (loss)			
Beginning of year	68.4	7.1	(92.5)
Other comprehensive (loss) income	(30.9)	61.3	99.6
End of year	37.5	68.4	7.1
Treasury stock			
Beginning of year	(214.4)	(80.2)	(38.3)
Repurchases of treasury stock	(62.8)	(137.7)	(41.9)
Stock issued from treasury	48.5	3.5	—
End of year	(228.7)	(214.4)	(80.2)
Unearned compensation			
Beginning of year	(1.9)	(3.1)	—
Issuance of restricted stock	(2.7)	—	(4.0)
Amortization of unearned compensation	1.2	1.2	0.9
End of year	(3.4)	(1.9)	(3.1)
Common stock held in grantor trust			
Beginning of year	(15.4)	(14.1)	(14.1)
Repurchases of common stock held in grantor trust	(0.3)	(1.3)	—
End of year	(15.7)	(15.4)	(14.1)
Grantor trust liability			
Beginning of year	15.4	14.1	14.1
Repurchases of common stock held in grantor trust	0.3	1.3	—
End of year	15.7	15.4	14.1
Total stockholders' equity	$1,194.8	$1,094.3	$897.7
Comprehensive income			
Net income	$ 150.6	$ 210.9	$207.2
Other comprehensive (loss) income			
Foreign currency translation adjustments	(42.7)	46.4	71.0
Derivatives qualifying as hedges:			
Net derivative gains (losses), net of income taxes of $6.9, $6.3 and $24.1 in 2005, 2004 and 2003 respectively	10.3	(9.4)	(36.2)
Reclassifications to income, net of income taxes of $1.2, $16.6 and $12.1 in 2005, 2004 and 2003, respectively	1.9	25.0	18.2
Minimum pension adjustment, net of income taxes of $0.1, $0.5 and $1.6 in 2005, 2004 and 2003, respectively	(0.4)	(0.7)	46.6
Other comprehensive (loss) income	(30.9)	61.3	99.6
Total comprehensive income	$ 119.7	$ 272.2	$306.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries over which it has a controlling financial interest. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Prior to 2005, the Company subsidiaries outside the U.S. (except Canada) were included in the consolidated financial statements on the basis of fiscal years ending November 30 in order to facilitate timely consolidation. This one-month reporting lag was eliminated at the beginning of 2005 as it was no longer required in order to achieve a timely consolidation. Revenue for these subsidiaries was $43.2 million for the month of December 2004. The December 2004 net loss of $3.1 million for these subsidiaries, which was historically reported in the first quarter of the subsequent calendar year, was recorded as an adjustment to retained earnings on January 1, 2005.

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.24 Paragraph 10 of APB Opinion No. 12, *Omnibus Opinion—1967,* states:

> 10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

5.25 Table 5-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

5.26

TABLE 5-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	2005	2004	2003	2002
Statement of stockholders' equity	523	517	515	512
Statement of additional paid-in capital	—	—	—	—
Schedule in notes	10	11	11	11
No statement or schedule but changes disclosed	2	1	1	2
Balance unchanged during year	6	10	11	11
	541	**539**	**538**	**536**
Additional paid-in capital account not presented	59	61	62	64
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

5.27 Table 5-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of disclosures of stock splits follow.

5.28

TABLE 5-6: STOCK SPLITS

	2005	2004	2003	2002
Ratio				
Less than three-for-two	3	1	3	2
Three-for-two (50%) to two-for-one	9	7	4	3
Two-for-one (100%)	31	38	12	18
Greater than two-for-one	1	1	—	—
	44	**47**	**19**	**23**
Reverse Ratio				
One-for-two	1	—	—	—
One-for-three	—	—	—	1
One-for-four	—	1	—	1
Other	1	1	—	2
Total Companies	**46**	**49**	**19**	**27**
Account(s) Charged				
Additional paid-in capital	10	7	7	7
Retained earnings	6	7	5	1
Both additional paid-in capital and retained earnings	2	—	—	1
No charge	28	35	7	18
Total Companies	**46**	**49**	**19**	**27**

5.29

CLARCOR INC. (NOV)

Consolidated Statements of Shareholders' Equity

(Dollars in thousands except per share data)	Common Stock Issued Number of Shares	Common Stock Issued Amount	Common Stock In Treasury Number of Shares	Common Stock In Treasury Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Earnings	Retained Earnings	Total
Balance, November 30, 2002	49,837,228	$24,919	—	$ —	$ 12,854	$(6,187)	$283,875	$315,461
Net earnings	—	—	—	—	—	—	54,552	54,552
Other comprehensive earnings, net of tax:								
Minimum pension liability adjustment	—	—	—	—	—	517	—	517
Translation adjustments	—	—	—	—	—	4,734	—	4,734
Total comprehensive earnings								59,803
Stock options exercised	770,340	385	—	—	2,097	—	—	2,482
Tax benefit applicable to stock options	—	—	—	—	4,494	—	—	4,494
Issuance of stock under award plans	23,826	12	—	—	553	—	—	565
Forfeiture of stock under award plans	(13,140)	(7)	—	—	—	—	—	(7)
Cash dividends—$0.2463 per common share	—	—	—	—	—	—	(12,406)	(12,406)
Balance, November 30, 2003	50,618,254	25,309	—	—	19,998	(936)	326,021	370,392
Net earnings	—	—	—	—	—	—	63,997	63,997
Other comprehensive earnings, net of tax:								
Minimum pension liability adjustment	—	—	—	—	—	(1,229)	—	(1,229)
Translation adjustments	—	—	—	—	—	3,836	—	3,836
Total comprehensive earnings								66,604
Stock options exercised	530,082	265	—	—	(2,667)	—	—	(2,402)
Tax benefit applicable to stock options	—	—	—	—	5,378	—	—	5,378
Issuance of stock under award plans	74,718	38	—	—	1,286	—	—	1,324
Cash dividends—$0.2513 per common share	—	—	—	—	—	—	(12,834)	(12,834)
Balance, November 30, 2004	51,223,054	25,612	—	—	23,995	1,671	377,184	428,462
Net earnings	—	—	—	—	—	—	76,393	76,393
Other comprehensive earnings, net of tax:								
Minimum pension liability adjustment	—	—	—	—	—	(2,110)	—	(2,110)
Translation adjustments	—	—	—	—	—	(4,198)	—	(4,198)
Total comprehensive earnings								70,085
Stock options exercised	602,897	479	—	—	(1,669)	—	—	(1,190)
Tax benefit applicable to stock options	—	—	—	—	6,789	—	—	6,789
Issuance of stock under award plans	137,030	97	—	—	2,436	—	—	2,533
Stock split	—	25,775	—	—	—	—	(25,775)	—
Purchase treasury stock	—	—	(368,200)	(10,461)	—	—	—	(10,461)
Retire treasury stock	(368,200)	(368)	368,200	10,461	(10,093)	—	—	—
Cash dividends—$0.2588 per common share	—	—	—	—	—	—	(13,385)	(13,385)
Balance, November 30, 2005	51,594,781	$51,595	—	$ —	$ 21,458	$(4,637)	$414,417	$482,833

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

O (In Part): Stock Split, Earnings Per Share and Treasury Transactions

On March 21, 2005, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend distributable April 29, 2005 to shareholders of record April 15, 2005. In connection therewith, the Company transferred $25,775 from retained earnings to common stock, representing the par value of additional shares issued. All share and per share amounts for all periods presented have been adjusted to reflect the stock split.

5.30

MURPHY OIL CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Thousands of dollars)	2005	2004	2003
Cumulative preferred stock—par $100, authorized 400,000 shares, none issued	—	—	—
Common stock—par $1.00, authorized 450,000,000 shares at December 31, 2005 and 200,000,000 shares at December 31, 2004 and 2003, issued 186,828,618 shares at December 31, 2005 and 94,613,379 shares at December 31, 2004 and 2003			
Balance at beginning of year	$ 94,613	$ 94,613	$ 94,613
Two-for-one stock split effective June 3, 2005	92,216	—	—
Balance at end of year	186,829	94,613	94,613
Capital in excess of par value			
Balance at beginning of year	511,045	504,809	504,983
Exercise of stock options, including income tax benefits	1,582	738	729
Restricted stock transactions and other	16,407	4,610	(1,472)
Sale of stock under employee stock purchase plans	1,145	888	569
Two-for-one stock split effective June 3, 2005	(92,216)	—	—
Balance at end of year	437,963	511,045	504,809
Retained earnings			
Balance at beginning of year	1,981,020	1,357,910	1,137,177
Net income for the year	846,452	701,315	294,197
Cash dividends—$.45 per share in 2005, $.425 per share in 2004 and $.40 per share in 2003	(83,198)	(78,205)	(73,464)
Balance at end of year	2,744,274	1,981,020	1,357,910
Accumulated other comprehensive income (loss)			
Balance at beginning of year	134,509	65,246	(66,790)
Foreign currency translation gains, net of income taxes	18,060	79,073	145,573
Cash flow hedging gains (losses), net of income taxes	(18,041)	(4,876)	17,912
Minimum pension liability adjustment, net of income taxes	(3,204)	(4,934)	(31,449)
Balance at end of year	131,324	134,509	65,246
Unamortized restricted stock awards			
Balance at beginning of year	(4,738)	—	—
Stock awards	(16,344)	(4,756)	—
Amortization, forfeitures and changes in price of common stock	4,672	18	—
Balance at end of year	(16,410)	(4,738)	—
Treasury stock			
Balance at beginning of year	(67,293)	(71,695)	(76,430)
Exercise of stock options	38,790	1,568	2,261
Sale of stock under employee stock purchase plans	1,182	617	799
Awarded restricted stock, net of forfeitures	4,331	2,217	1,675
Balance at end of year—881,940 shares of common stock in 2005, 2,578,002 shares in 2004 and 2,742,781 shares in 2003	(22,990)	(67,293)	(71,695)
Total stockholders' equity	$3,460,990	$2,649,156	$1,950,883

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Net Income Per Common Share

Basic income per Common share is computed by dividing net income for each reporting period by the weighted average number of Common shares outstanding during the period. Diluted income per Common share is computed by dividing net income for each reporting period by the weighted average number of Common shares outstanding during the period plus the effects of potentially dilutive Common shares. Per share amounts for 2004 and 2003 have been restated to reflect the Company's two-for-one stock split effective June 3, 2005.

Note R. Common Stock Issued and Outstanding

Activity in the number of shares of Common Stock issued and outstanding for the three years ended December 31, 2005 is shown below.

(Number of shares outstanding)	2005	2004	2003
At beginning of year	92,035,377	91,870,598	91,689,454
Stock options exercised	1,488,063	60,000	86,500
Employee stock purchase and thrift plans	45,344	23,632	30,560
Restricted stock awards, net of forfeitures	165,920	84,812	64,084
Two-for-one stock split effective June 3, 2005	92,215,239	—	—
All other	(3,265)	(3,665)	—
At end of year	185,946,678	92,035,377	91,870,598

On May 11, 2005, the Company's Board of Directors approved a two-for-one stock split effective as of June 3, 2005 by way of a dividend of one share of stock for each share held to all shareholders of record at the close of business on May 20, 2005. The total number of authorized Common shares and shares held in the treasury, and the par value thereof, was unchanged by the split. Per share amounts shown in the consolidated financial statements for all periods reflect the two-for-one stock split. Further information regarding the split is presented in the Consolidated Statement of Stockholders' Equity.

5.31

VALERO ENERGY CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Millions of dollars)	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2002	$ —	$ 4	$3,433	$ (42)	$ 913	$ (1)
Net income	—	—	—	—	622	—
Dividends on common stock	—	—	—	—	(48)	—
Dividends on and accretion of preferred stock	1	—	—	—	(4)	—
Sale of common stock	—	—	250	—	—	—
Issuance of preferred stock in connection with St. Charles acquisition	199	—	21	—	—	—
Settlement of stock purchase contracts under PEPS units	—	—	173	—	—	—
Shares repurchased and shares issued in connection with employee stock plans and other	—	—	42	1	—	—
Other comprehensive income	—	—	—	—	—	171
Balance as of December 31, 2003	200	4	3,919	(41)	1,483	170
Net income	—	—	—	—	1,804	—
Dividends on common stock	—	—	—	—	(75)	—
Dividends on and accretion of preferred stock	8	—	—	—	(13)	—
Sale of common stock	—	1	406	—	—	—
Shares repurchased and shares issued in connection with employee stock plans and other	—	—	31	(158)	—	—
Other comprehensive income	—	—	—	—	—	59
Balance as December 31, 2004	208	5	4,356	(199)	3,199	229
Net income	—	—	—	—	3,590	—
Dividends on common stock	—	—	—	—	(103)	—
Dividends on and accretion of preferred stock	10	—	—	—	(13)	—
Conversion of preferred stock	(150)	—	150	—	—	—
Issuance of common stock in connection with the Premcor acquisition	—	1	3,177	—	—	—
Fair value of replacement stock options issued in connection with the Premcor acquisition	—	—	595	—	—	—
Shares repurchased and shares issued in connection with employee stock plans and other	—	—	(114)	3	—	—
Other comprehensive income	—	—	—	—	—	106
Balance as of December 31, 2005	$ 68	$ 6	$8,164	$(196)	$6,673	$335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation (In Part)

Share and per share data (except par value) presented for all periods reflect the effect of two separate two-for-one stock splits, which were effected in the form of common stock dividends distributed on December 15, 2005 and October 7, 2004, as discussed in Note 15 under "*Common Stock Splits.*"

15 (In Part): Stockholders' Equity

Common Stock Splits

On July 15, 2004, our board of directors approved a two-for-one split of our common stock that was effected in the form of a stock dividend. The stock dividend was distributed on October 7, 2004 to stockholders of record on September 23, 2004. In connection with the stock split, our shareholders approved on September 13, 2004, an amendment to our certificate of incorporation to increase the number of authorized common shares from 300 million to 600 million.

On September 15, 2005, our board of directors approved another two-for-one split of our common stock that was effected in the form of a stock dividend. The stock dividend was distributed on December 15, 2005 to stockholders of record on December 2, 2005. In connection with the stock split, our shareholders approved on December 1, 2005, an amendment to our certificate of incorporation to increase the number of authorized common shares from 600 million to 1.2 billion.

All share and per share data (except par value) have been adjusted to reflect the effect of the stock splits for all periods presented. In addition, the number of shares of common stock issuable upon conversion of the mandatory convertible preferred stock, the exercise of outstanding stock options and the vesting of other stock awards, as well as the number of shares of common stock reserved for issuance under our various employee benefit plans, were proportionately increased in accordance with the terms of those respective agreements and plans.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.32 Table 5-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

5.33

TABLE 5-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	2005	**2004**	**2003**	**2002**
Credits				
Common stock issued				
Employee benefits	460	438	401	409
Business combinations	47	45	38	58
Public offerings	32	32	33	45
Debt conversions/extinguishments	20	18	12	16
Preferred stock conversions	18	19	10	20
Stock compensation tax benefits	214	199	156	159
Compensation recognized	98	92	51	31
Warrants issued or exercised	6	5	7	10
Put options/warrants	—	—	1	5
Other—described	45	44	36	32
Charges				
Purchase or retirement of capital stock	119	107	99	96
Treasury stock issued for less than cost	64	74	75	77
Other employee benefits	44	N/C*	N/C*	N/C*
Restricted stock	36	26	39	22
Conversion of preferred stock	7	5	7	10
Other—described	39	64	65	73

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

Common Stock Issued in Connection With Employee Benefit Plans

5.34

CURTISS-WRIGHT CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Portion of Restricted Stock Awards	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Treasury Stock
January 1, 2003	$10,618	$ 4,382	$52,200	$508,298	$(60)	$ 6,482		$(170,692)
Comprehensive income:								
Net earnings	—	—	—	52,268	—	—	$ 52,268	—
Translation adjustments, net	—	—	—	—	—	16,152	16,152	—
Total comprehensive income							$ 68,420	
Dividends paid	—	—	—	(6,520)	—	—		—
Stock options exercised, net	—	—	741	—	—	—		4,812
Other	—	—	57	—	5	—		138
Two-for-one common stock split effected in the form of a 100% stock dividend	5,993	4,383	—	(10,376)	—	—		—
December 31, 2003	16,611	8,765	52,998	543,670	(55)	22,634		(165,742)
Comprehensive income:								
Net earnings	—	—	—	65,066	—	—	$ 65,066	—
Translation adjustments, net	—	—	—	—	—	14,163	14,163	—
Total comprehensive income							$ 79,229	
Dividends paid	—	—	—	(7,666)	—	—		—
Stock options exercised, net	—	—	(1,748)	—	—	—		11,345
Stock issued under employee stock purchase plan, net	35	—	1,358	—	—	—		—
Equity issued in connection with acquisitions	—	—	3,259	—	—	—		10,741
Other	—	—	18	—	21	—		141
December 31, 2004	$16,646	$ 8,765	$55,885	$601,070	$(34)	$36,797		$(143,515)
Comprehensive income:								
Net earnings	—	—	—	75,280	—	—	$ 75,280	—
Translation adjustments, net	—	—	—	—	—	(16,142)	(16,142)	—
Total comprehensive income							$ 59,138	
Dividends paid	—	—	—	(8,458)	—	—		—
Stock options exercised, net	—	—	42	—	—	—		7,721
Stock issued under employee stock purchase plan, net	82	—	3,863	—	—	—		—
Recapitalization	8,765	(8,765)	—	—	—	—		—
Other	—	—	16	—	22	—		180
December 31, 2005	$25,493	—	$59,806	$667,892	$(12)	$20,655		$(135,614)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

N (In Part): Accounting for Stock-Based Compensation

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), the Corporation elected to account for its stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". As such, the Corporation does not recognize compensation expense on non-qualified stock options granted to employees under the Corporation's 1995 or 2005 Long-Term Incentive Plan (the "1995 LTI Plan" or the "2005 LTI Plan" respectively), when the exercise price of the options is equal to the market price of the underlying stock on the date of the grant, or on non-qualified stock options granted under the Corporation's Employee Stock Purchase Plan ("ESPP"). In December 2004, the FASB issued FAS 123 (revised 2004) ("FAS 123R"), under which, the Corporation will begin to expense stock option grants beginning in the first quarter 2006.

12. Stock Compensation Plans

2005 Long-Term Incentive Plan

Under the 2005 LTI Plan approved by stockholders in 2005 and effective as of May 19, 2005, an aggregate total of 2,500,000 shares of Common stock were reserved for issuance. The Common stock to be used to satisfy employee option exercises will be from the Corporation's treasury stock. The Corporation does not expect to repurchase any shares in 2006 to replenish treasury stock for issuances made to satisfy stock option exercises. No more than 200,000 shares of Common stock or 100,000 shares of restricted stock may be awarded in any year to any one participant in the 2005 LTI Plan. Awards under the 2005 LTI Plan currently consist of three components—performance units (cash), non-qualified stock options, and contingent restricted stock.

Under the 2005 LTI Plan, the Corporation awarded performance units of 8.0 million in 2005 to certain key employees. The performance units are denominated in dollars and are contingent upon the satisfaction of performance objectives keyed to achieving profitable growth over a period of three fiscal years commencing with the fiscal year following such awards. The anticipated cost of such awards is expensed over the three-year performance period, which for the 2005 awards will begin in 2006. The actual cost of the performance units may vary from the total value of the awards depending upon the degree to which the key performance objectives are met.

Under the 2005 LTI Plan, the Corporation has granted non-qualified stock options in 2005 to key employees. Grants under the 2005 LTI Plan were made in the fourth quarter. Stock options granted under the 2005 LTI Plan expire ten years after the date of the grant and are generally exercisable as follows: up to one-third of the grant after one year, up to two-thirds of the grant after two years, and in full three years from the date of grant.

Under the 2005 LTI Plan, the Corporation has granted 54,336 contingent restricted stock units in 2005 to certain of the Corporation's officers. The contingent restricted stock granted under this LTI Plan are denominated in shares based on the fair market value of the Corporation's stock on the day of the grant, and are contingent upon the satisfaction of performance objectives keyed to achieving profitable growth over a period of three fiscal years commencing with the fiscal year following such award. The anticipated cost of such award is expensed over the three-year performance period. The actual cost of the contingent restricted stock may vary from the total value of the awards depending upon the degree to which the key performance objectives are met.

The remaining allowable shares for issuance under the 2005 LTI Plan as of December 31, 2005 is 2,257,582.

1995 Long-Term Incentive Plan

Under the 1995 LTI Plan approved by stockholders in 1995 and as amended in 2002 and 2003, an aggregate total of 3,000,000 shares of Common stock were reserved for issuance. The Common stock used to satisfy employee option exercises will be from the Corporation's treasury stock. The Corporation does not expect to repurchase any shares in 2006 to replenish treasury stock for issuances made to satisfy stock option exercise. No more than 50,000 shares of Common stock may be awarded in any year to any one participant in the 1995 LTI Plan. Awards under the 1995 LTI Plan consisted of three components—performance units (cash), non-qualified stock options, and non-employee director grants.

Under the 1995 LTI Plan, the Corporation awarded performance units of 6.3 million in 2004 and 4.8 million in 2003 to certain key employees. The performance units are denominated in dollars and are contingent upon the satisfaction of performance objectives keyed to achieving profitable growth over a period of three fiscal years commencing with the fiscal year following such awards. The anticipated cost of such awards is expensed over the three-year performance period, which amounted to $5.3 million, $4.3 million, and $3.3 million in 2005, 2004, and 2003, respectively. The actual cost of the performance units may vary from the total value of the awards depending upon the degree to which the key performance objectives are met.

Under the 1995 LTI Plan, the Corporation granted non-qualified stock options in 2004 and 2003 to key employees. Grants under the 1995 LTI Plan were made in the fourth quarter of both years. Stock options granted under the 1995 LTI Plan expire ten years after the date of the grant and are generally exercisable as follows: up to one-third of the grant after one year, up to two-thirds of the grant after two years, and in full three years from the date of grant.

In May 2003, the Corporation's Board of Directors and stockholders approved an amendment to the 1995 LTI Plan to authorize non-employee directors to participate under the plan. The amendment provided that each non-employee director could receive the equivalent of $15,000 of the Corporation's Common stock per year. The Board of Directors approved and issued stock grants of 277 shares, 268 shares, and 480 shares in 2005, 2004, and 2003, respectively, of the Corporation's Common stock to each of the eight non-employee directors. The stock grants were valued at $15,000 based on the market price of the Corporation's Common stock on the grant date and were expensed at the time of issuance.

1995 LTI Plan was superseded by the 2005 LTI Plan so there are no remaining allowable shares for future awards under the 1995 LTI Plan. As of December 31, 2005 there were options representing a total of 769,936 shares outstanding under the 1995 plan.

Employee Stock Purchase Plan

In May 2003, the Corporation's Board of Directors and stockholders approved the 2003 Employee Stock Purchase Plan (the "ESPP") under which eligible employees may purchase the Corporation's Common stock at a price per share equal to 85% of the lower of the fair market value of the Common stock at the beginning or end of each offering period. Each offering period of the ESPP lasts six months, with the first offering period commencing on January 1, 2004. Participation in the offering is limited to 10% of an employee's base salary (not to exceed amounts allowed under Section 423 of the Internal Revenue Code), may be terminated at any time by the employee, and automatically ends on termination of employment with the Corporation. A total of 1,000,000 shares of Common stock have been reserved for issuance under the ESPP. The Common stock to satisfy the stock purchases under the ESPP will be newly issued shares of Common stock. During 2005, 82,283 shares were purchased under the ESPP. As of December 31, 2005, there were 882,822 shares available for future offerings, and the corporation has withheld $2.2 million from employees, the equivalent of 48,605 shares.

Stock option activity during the periods for both plans is indicated as follows:

	Shares	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Outstanding at January 1, 2003	1,340,304	$21.16	837,024	$18.48
Granted	148,052	38.16		
Exercised	(233,708)	16.57		
Forfeited	(16,926)	24.39		
Outstanding at December 31, 2003	1,237,722	24.01	855,676	20.83
Granted	126,336	55.91		
Exercised	(315,517)	19.37		
Forfeited	(50,385)	25.68		
Outstanding at December 31, 2004	998,156	29.43	729,690	23.51
Granted	189,278	55.84		
Exercised	(219,696)	21.11		
Forfeited	(9,720)	42.82		
Outstanding at December 31, 2005	958,018	$36.42	641,549	$28.08

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Shares	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price
Less than $20.00	100,862	3.2	$18.73	100,862	3.2	$18.73
$20.00—$29.99	291,993	5.5	22.59	291,993	5.5	22.59
$30.00—$40.00	253,282	7.4	35.45	207,667	7.3	34.86
Greater than $40.00	311,881	9.5	55.87	41,027	8.9	55.91
	958,018	7.1	$36.42	641,549	5.9	$28.08

2005 Stock Plan for Non-Employee Directors

The Stock Plan for Non-Employee Directors ("2005 Stock Plan"), approved by the stockholders in 2005 authorized the grant of stock awards and, at the option of the non-employee directors, the deferred payment of regular stipulated compensation and meeting fees in equivalent shares. Pursuant to the terms of the 2005 Stock Plan, the Corporation's non-employee directors each receive annual restricted stock awards valued at $50,000, which are subject to a three year restriction period commencing on the date of the grant. These restricted stock awards are subject to forfeiture if the non-employee director resigns or retires by reason of his or her decision not to stand for re-election prior to the lapsing of all restrictions, unless the restrictions are otherwise removed by the Committee on Directors and Governance. The cost of the restricted stock awards will be amortized over the three year restriction period from the date of grant. Newly elected non-employee directors receive a one-time restricted stock award valued at $25,000. The total number of shares of Common stock available for grant under the 2005 Stock Plan may not exceed 50,000 shares. During 2005, no grants of restricted stock were awarded under the 2005 Stock Plan.

1996 Stock Plan for Non-Employee Directors

The Stock Plan for Non-Employee Directors ("1996 Stock Plan"), approved by the stockholders in 1996, authorized the grant of restricted stock awards and, at the option of the non-employee directors, the deferred payment of regular stipulated compensation and meeting fees in equivalent shares. Pursuant to the terms of the 1996 Stock Plan, non-employee directors received an initial restricted stock grant of 3,612 shares in 1996, which became unrestricted in 2001. Additionally, on the fifth anniversary of the initial grant, those non-employee directors who remained a non-employee director, received an additional restricted stock grant equal to the product of increasing $13,300 at an annual rate of 2.96%, compounded monthly from the effective date of the 1996 Stock Plan. In 2001, the amount per director was calculated to be $15,419, representing a total additional grant of 1,555 restricted shares. The cost of the restricted stock awards is being amortized over the five-year restriction period from the date of grant. Prior to the effective date of the 2005 Stock Plan, newly elected non-employee directors received similar compensation under the terms of the 1996 Stock Plan upon their election to the Board.

Pursuant to election by non-employee directors to receive shares in lieu of payment for earned and deferred compensation under the 1996 Stock Plan, the Corporation had provided for an aggregate additional 29,027 shares, at an average price of $32.76 as of December 31, 2005. During 2005, the Corporation issued 2,802 shares in deferred compensation pursuant to such elections.

5.35

SKYWORKS SOLUTIONS, INC. (SEP)

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(In thousands)	Shares of Common Stock	Par Value of Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Unearned Compensation	Total Stockholders' Equity
Balance at September 30, 2002	137,589	$34,397	$1,150,856	$(170,193)	$ —	$(84)	$1,014,976
Net loss	—	—	—	(451,416)	—	—	(451,416)
Pension adjustment	—	—	—	—	(632)	—	(632)
Other comprehensive loss	—	—	—	—	(632)	—	(632)
Comprehensive loss	—	—	—	—	—	—	(452,048)
Issuance of common shares in offering, net of expenses	9,200	2,300	99,888	—	—	—	102,188
Issuance of common shares for stock purchase plans, 401 (k) and stock option plans	1,769	442	8,607	—	—	—	9,049
Amortization of unearned compensation	—	—	—	—	—	84	84
Adjustment to recapitalization as a result of purchase accounting under a reverse acquisition	—	—	(1,543)	—	—	—	(1,543)
Issuance of common shares in trademark settlement	46	12	457	—	—	—	469
Balance at September 30, 2003	148,604	37,151	1,258,265	(621,609)	(632)	—	673,175
Net income	—	—	—	22,412	—	—	22,412
Pension adjustment	—	—	—	—	(154)	—	(154)
Other comprehensive loss	—	—	—	—	(154)	—	(154)
Comprehensive income	—	—	—	—	—	—	22,258
Issuance of common shares for stock purchase plans, 401 (k) and stock option plans	1,690	423	11,251	—	—	—	11,674
Issuance of common shares in conversion of senior notes, net of expenses	5,718	1,429	42,908	—	—	—	44,337
Adjustment to issuance of common shares in offering, net of expenses	—	—	179	—	—	—	179
Balance at September 30, 2004	156,012	39,003	1,312,603	(599,197)	(786)	—	751,623
Net income	—	—	—	25,611	—	—	25,611
Pension adjustment	—	—	—	—	(351)	—	(351)
Other comprehensive loss	—	—	—	—	(351)	—	(351)
Comprehensive income	—	—	—	—	—	—	25,260
Issuance of common shares for stock purchase plans, 401 (k) and stock option plans	2,452	613	14,932	—	—	—	15,545
Issuance and expense of restricted stock and acceleration of options	161	40	96	—	—	—	136
Balance at September 30, 2005	158,625	$39,656	$1,327,631	$(573,586)	$(1,137)	$ —	$ 792,564

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation (In Part)

The Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for employee stock options and restricted stock rather than the alternative fair value accounting allowed by SFAS No. 123, "Accounting for Stock-Based Compensation." APB No. 25 provides that compensation expense relative to the Company's employee stock options is measured based on the intrinsic value of stock options granted at the grant date and the Company recognizes compensation expense, if any, in its statement of operations using the straight-line method over the vesting period for fixed awards.

Under SFAS No. 123, the fair value of stock options at the date of grant is recognized in earnings over the vesting period of the options. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

The Company granted 160,500 shares of restricted common stock during fiscal 2005. These shares were accounted for under the intrinsic value method as prescribed in APB Opinion No. 25. Stock-based compensation cost is determined as of the grant date based on the market price of the underlying common stock and is recognized as expense over vesting periods of four years. The restricted stock grants were valued at approximately $843,000 of which approximately $79,000 was recognized as compensation expense in fiscal 2005. The remaining unrecognized balance will be recognized as compensation expense ratably over the life the vesting period of the restricted stock, which is four (4) years.

On September 2, 2005, the Company accelerated certain unvested and "out-of-the-money" stock options previously awarded to employees and officers that have exercise prices per share over $9.00 and were granted prior to November 10, 2004. As a result, options to purchase approximately 3.8 million shares of Skyworks stock became exercisable immediately upon the announcement. The decision to accelerate vesting of these options was made to avoid recognizing compensation cost associated with certain "out-of-the-money" options in the statement of operations in future financial statements upon the effectiveness of SFAS 123(R). The Company chose the price of $9.00 so as to balance the Company's desire to manage compensation expense with its need to motivate and retain employees. Based upon the Company's closing stock price of $7.52 on September 2, 2005, none of these options had economic value on the date of acceleration, and no compensation expense resulted from the acceleration.

No stock-based employee compensation cost is reflected in net income for stock options, as all options granted under the Company's stock-based employee compensation plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Note 9 (In Part): Stockholders' Equity

Stock Options

The Company has stock-based compensation plans under which employees and directors may be granted options to purchase common stock. Options are generally granted with exercise prices at not less than the fair market value on the grant date, generally vest over 4 years and expire 7 to 10 years after the grant date. As of September 30, 2005, a total of 36.5 million shares are authorized for grant under the Company's stock-based compensation plans. The number of common shares reserved for granting of future awards to employees and directors under these plans was 8.4 million at September 30, 2005. In addition, options outstanding include 11.5 million options issued in connection with the Merger.

Pursuant to an exchange offer dated June 16, 2003 (the "Exchange Offer"), the Company offered a stock option exchange program to its employees, other than its executive officers under Section 16 of the Securities Exchange Act of 1934, as amended, giving them the right to tender outstanding stock options with an exercise price of $13.00 per share or more in exchange for new options to be issued six months and one day after the close of the Exchange Offer. On July 3, 2003, the expiration date of the Company's Exchange Offer, the Company accepted for exchange from eligible employees, options to purchase an aggregate of approximately 5.3 million shares of the Company's common stock. These stock options were cancelled as of that date. Pursuant to the Exchange Offer, a ratio was applied to the options accepted for exchange from eligible employees and on January 5, 2004, the Company issued new options to purchase approximately 3.4 million shares of the Company's common stock with an exercise price at fair market value ($9.60) in exchange for the options cancelled in connection with the offer. These new options vest ratably over the 18 month period from the date of grant. The Exchange Offer qualified for fixed accounting, and thus the Company did not recognize compensation expense in connection with the grant of the replacement options pursuant to the Exchange Offer.

A summary of stock option transactions follows (shares in thousands):

	Shares	Weighted-Average Exercise Price of Shares Under Plan
Balance outstanding at September 30, 2002	31,332	$19.73
Granted	6,372	5.06
Exercised	(496)	6.37
Accepted for exchange	(5,328)	23.38
Cancelled	(6,117)	20.21
Balance outstanding at September 30, 2003	25,763	$15.44
Granted	7,351	9.16
Granted for options accepted for exchange	3,377	9.60
Exercised	(685)	5.05
Cancelled	(4,043)	15.61
Balance outstanding at September 30, 2004	31,763	$13.63
Granted	4,668	8.47
Exercised	(935)	5.57
Cancelled	(3,918)	13.66
Balance outstanding at September 30, 2005	31,578	$12.99

Options exercisable at the end of each fiscal year (shares in thousands):

	Shares	Weighted-Average Exercise Price
2005	24,053	$14.68
2004	17,671	$17.59
2003	15,141	$19.03

The following table summarizes information concerning currently outstanding and exercisable options as of September 30, 2005 (shares in thousands):

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Outstanding Option Price	Options Exercisable	Weighted-Average Exercise Price
$0.45–$5.75	4,620	6.9	$ 4.64	2,248	$ 4.50
$5.76–$8.93	5,227	8.7	$ 8.31	767	$ 7.17
$8.96–$9.18	4,680	8.3	$ 9.17	4,358	$ 9.18
$9.19–$13.56	5,094	7.3	$10.60	4,817	$10.60
$13.67–$17.12	5,687	3.1	$16.36	5,667	$16.37
$17.20–$21.31	4,619	5.2	$21.17	4,574	$21.18
$21.56–$170.44	1,651	4.2	$34.87	1,622	$35.05
	31,578	6.4	$12.99	24,053	$14.68

Restricted Stock Awards

The Company's stock-based compensation plans provide for awards of restricted shares of common stock and other stock-based incentive awards to officers and other employees and certain non-employees. Restricted stock awards are subject to forfeiture if employment terminates during the prescribed retention period (generally within four years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The fair value of restricted stock awards at the date of grant is charged to expense over the vesting period. The Company granted 160,500 shares of restricted common stock during fiscal 2005. These shares were accounted for under the intrinsic value method as prescribed in APB Opinion No. 25. Stock-based compensation cost is measured at the grant date based on the market price of the underlying common stock and is being recognized as expense over the vesting periods of four years. The restricted stock grants were valued at approximately $843,000 of which approximately $79,000 was recognized as compensation expense in fiscal 2005.

The remaining unrecognized balance will be recorded as compensation expense ratably over the vesting periods of the restricted stock of four (4) years. There were no restricted stock grants awarded in fiscal 2004 or fiscal 2003.

Stock-Based Compensation Plans for Directors

The Company has three stock-based compensation plans for non-employee directors—the 1994 Non-Qualified Stock Option Plan, the 1997 Non-Qualified Stock Option Plan and the Directors' 2001 Stock Option Plan. Under the three plans, a total of 1.2 million shares have been authorized for option grants. As of September 30, 2005, under the three plans, a total of 0.4 million shares are available for new grants. The three plans have substantially similar terms and conditions and are structured to provide options to non-employee directors as follows: a new director receives a total of 45,000 options upon becoming a member of the Board; and continuing directors receive 15,000 options after each Annual Meeting of Shareholders. Under these plans, the option price is the fair market value at the time the option is granted. Beginning in fiscal 2001, all options granted become exercisable 25% per year beginning one year from the date of grant. Options granted prior to fiscal 2001 become exercisable at a rate of 20% per year beginning one year from the date of grant. During fiscal 2005, 165,000 options were granted under these plans at a weighted average price of $5.80. At September 30, 2005, a total of 772,500 options at a weighted average price of $10.54 are outstanding under these three plans, and 416,250 shares were exercisable at a weighted average price of $12.94. During fiscal 2004, 15,000 options were exercised under these plans, and during fiscal 2005 and 2003, no options were exercised under these plans. Non-employee directors of the Company are also eligible to receive option grants under the Company's 1996 Long-Term Incentive Plan. The abovementioned activity for the stock-based compensation plans for directors is included in the option tables above.

Employee Stock Purchase Plan

The Company maintains a domestic and an international employee stock purchase plan. Under these plans, eligible employees may purchase common stock through payroll deductions of up to 10% of compensation. The price per share is the lower of 85% of the market price at the beginning or end of each six-month offering period. The plans provide for purchases by employees of up to an aggregate of 3,000,000 shares through December 31, 2012. Shares of common stock purchased under these plans in fiscal 2005, 2004 and 2003 were 824,211, 616,760, and 704,921, respectively. At September 30, 2005, there are 84,613 shares available for purchase. The Company did not recognize compensation expense under these plans in fiscal 2005, 2004 or 2003.

Business Combination

5.36

CHEVRON CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

	2005		2004		2003	
(Shares in thousands, amounts in millions of dollars)	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock	—	$ —	—	$ —	—	$ —
Common stock[1]						
Balance at January 1	2,274,032	$ 1,706	2,274,042	$ 1,706	2,274,042	$ 1,706
Shares issued for Unocal acquisition	168,645	126		—		—
Conversion of Texaco Inc. acquisition	—	—	(10)	—	—	—
Balance at December 31	2,442,677	$ 1,832	2,274,032	$ 1,706	2,274,042	$ 1,706
Capital in excess of par[1]						
Balance at January 1		$ 4,160		$ 4,002		$ 3,980
Shares issued for Unocal acquisition		9,585		—		—
Stock options and restricted stock units		67		—		—
Treasury stock transactions		82		158		22
Balance at December 31		$13,894		$ 4,160		$ 4,002
Retained earnings						
Balance at January 1		$45,414		$35,315		$30,942
Net income		14,099		13,328		7,230
Cash dividends on common stock		(3,778)		(3,236)		(3,033)
Tax benefit from dividends paid on unallocated ESOP shares and other		3		7		6
Exchange of Dynegy securities		—		—		170
Balance at December 31		$55,738		$45,414		$35,315
Notes receivable—key employees		$ (3)		$ —		$ —
Accumulated other comprehensive loss						
Currency translation adjustment						
Balance at January 1		$ (140)		$ (176)		$ (208)
Change during year[2]		(5)		36		32
Balance at December 31		$ (145)		$ (140)		$ (176)
Minimum pension liability adjustment						
Balance at January 1		$ (402)		$ (874)		$ (876)
Change during year		58		472		2
Balance at December 31		$ (344)		$ (402)		$ (874)
Unrealized net holding gain on securities						
Balance at January 1		$ 120		$ 129		$ 49
Change during year		(32)		(9)		80
Balance at December 31		$ 88		$ 120		$ 129
Net derivatives gain (loss) on hedge transactions						
Balance at January 1		$ 103		$ 112		$ 37
Change during year[2]		$ (131)		(9)		75
Balance at December 31		$ (28)		103		$ 112
Balance at December 31		$ (429)		$ (319)		$ (809)

(continued)

	2005		2004		2003	
(Shares in thousands, amounts in millions of dollars)	Shares	Amount	Shares	Amount	Shares	Amount
Deferred compensation and benefit plan trust						
Deferred compensation						
Balance at January 1		$ (367)		$ (362)		$ (412)
Net reduction of ESOP debt and other		121		(5)		50
Balance at December 31		(246)		(367)		(362)
Benefit plan trust (common stock)[1]	14,168	(240)	14,168	(240)	14,168	(240)
Balance at December 31	14,168	$ (486)	14,168	$ (607)	14,168	$ (602)
Treasury stock at cost[1]						
Balance at January 1	166,912	$ (5,124)	135,747	$ (3,317)	137,769	$ (3,374)
Purchases	52,013	(3,029)	42,607	(2,122)	81	(3)
Issuances—mainly employee benefit plans	(8,935)	283	(11,442)	315	(2,103)	60
Balance at December 31	209,990	$ (7,870)	166,912	$ (5,124)	135,747	$ (3,317)
Total stockholders equity at December 31		$62,676		$45,230		$36,295

[1] 2003 restated to reflect a two-for-one stock split effected as a 100 percent stock dividend in September 2004.
[2] Includes Unocal balances at December 31, 2005.

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

Note 2. Acquisition of Unocal Corporation

On August 10, 2005, the company acquired Unocal Corporation (Unocal), an independent oil and gas exploration and production company. Unocal's principal upstream operations are in North America and Asia, including the Caspian region. Also located in Asia are Unocal's geothermal energy and electrical power businesses. Other activities include ownership interests in proprietary and common carrier pipelines, natural gas storage facilities and mining operations.

The aggregate purchase price of Unocal was approximately $17,300, which included approximately $7,500 cash, 169 million shares of Chevron common stock valued at or about $9,600, and $200 for stock options on approximately 5 million shares and merger-related fees. The value of the common shares was based on the average market price for a 5-day period beginning two days before the terms of the acquisition were finalized and announced on July 19, 2005. The issued shares represented approximately 7.5 percent of the number of shares outstanding immediately after the August 10 close. The value of the stock options at the acquisition date was determined using the Black-Scholes option-pricing model.

A third-party appraisal firm has been engaged to assist the company in the process of determining the fair values of Unocal's tangible and intangible assets. Initial fair-value estimates were made in the third quarter 2005, and adjustments to those initial estimates were made in the fourth quarter. The company expects the valuation process will be finalized in the first half of 2006. Once completed, the associated deferred tax liabilities will also be adjusted. No significant intangible assets other than goodwill are included in the preliminary allocation of the purchase price in the table below. No in-process research and development assets were acquired.

The acquisition was accounted for under the rules of Financial Accounting Standards Board (FASB) Statement No. 141, "*Business Combinations.*" The following table summarizes the preliminary allocation of the purchase price to Unocal's assets and liabilities:

	At August 1, 2005
Current assets	$ 3,531
Investments and long-term receivables	1,647
Properties	17,288
Goodwill	4,700
Other assets	2,055
Total assets acquired	29,221
Current liabilities	(2,365)
Long-term debt and capital leases	(2,392)
Deferred income taxes	(3,743)
Other liabilities	(3,435)
Total liabilities assumed	(11,935)
Net assets acquired	$ 17,286

The $4,700 of goodwill is assigned to the upstream segment. None of the goodwill is deductible for tax purposes. The goodwill represents benefits of the acquisition that are additional to the fair values of the other net assets acquired. The primary reasons for the acquisition and the principal factors that contributed to a Unocal purchase price that resulted in the recognition of goodwill were as follows:

- The "going concern" element of the Unocal businesses, which presents the opportunity to earn a higher rate of return on the assembled collection of net assets than would be expected if those assets were acquired separately. These benefits include upstream growth opportunities in the Asia-Pacific, Gulf of Mexico and Caspian regions. Some of these areas contain operations that are complementary to Chevron's, and the acquisition is consistent with Chevron's long-term strategies to grow profitability in its core upstream areas, build new legacy positions and commercialize the company's large undeveloped natural gas resource base.
- Cost savings that can be obtained through the capture of operational synergies. The opportunities for cost savings include the elimination of duplicate facilities and

services, high-grading of investment opportunities in the combined portfolio and the sharing of best practices of the two companies.

Goodwill recorded in the acquisition is not subject to amortization, but will be tested periodically for impairment as required by FASB Statement No. 142, *"Goodwill and Other Intangible Assets."*

The following unaudited pro forma summary presents the results of operations as if the acquisition of Unocal had occurred at the beginning of each period:

	2005	2004
Sales and other operating revenues	$198,762	$158,471
Net income	14,967	14,164
Net income per share of common stock		
Basic	$ 6.68	$ 6.22
Diluted	$ 6.64	$ 6.19

The pro forma summary uses estimates and assumptions based on information available at the time. Management believes the estimates and assumptions to be reasonable; however, actual results may differ significantly from this pro forma financial information. The pro forma information does not reflect any synergistic savings that might be achieved from combining the operations and is not intended to reflect the actual results that would have occurred had the companies actually been combined during the periods presented.

Public Offering

5.37

BE AEROSPACE, INC. (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock					
(In millions)	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2002	35.2	$0.3	$410.1	$(329.5)	$(11.6)	$ 69.3
Sale of stock under employee stock purchase plan	0.7	0.1	1.3	—	—	1.4
Exercise of stock options	0.1	—	0.2	—	—	0.2
Employee benefit plan matching contribution	0.7	—	2.2	—	—	2.2
Net loss	—	—	—	(53.5)	—	(53.5)
Foreign currency translation adjustment	—	—	—	—	12.3	12.3
Balance, December 31, 2003	36.7	0.4	413.8	(383.0)	0.7	31.9
Sale of common stock under public offering	18.4	0.2	156.3	—	—	156.5
Sale of stock under employee stock purchase plan	0.6	—	2.9	—	—	2.9
Exercise of stock options	0.6	—	2.9	—	—	2.9
Employee benefit plan matching contribution	0.3	—	2.3	—	—	2.3
Net loss	—	—	—	(22.0)	—	(22.0)
Foreign currency translation adjustment	—	—	—	—	8.3	8.3
Balance, December 31, 2004	56.6	0.6	578.2	(405.0)	9.0	182.8
Sale of common stock under public offering	15.0	0.1	268.6	—	—	268.7
Sale of stock under employee stock purchase plan	0.2	—	2.8	—	—	2.8
Exercise of stock options	2.3	—	13.5	—	—	13.5
Employee benefit plan matching contribution	0.2	—	2.9	—	—	2.9
Deferred income tax benefit from share based payments	—	—	28.0	—	—	28.0
Net earnings	—	—	—	84.6	—	84.6
Foreign currency translation adjustment	—	—	—	—	(13.7)	(13.7)
Balance, December 31, 2005	74.3	$0.7	$894.0	$(320.4)	$ (4.7)	$569.6

Debt Conversion

5.38

FLEETWOOD ENTERPRISES, INC. (APR)

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in thousands)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance April 28, 2002	35,290	$35,290	$245,983	$(102,337)	$ (4,193)	$ 174,743
Comprehensive loss:						
Net loss	—	—	—	(70,739)	—	(70,739)
Other comprehensive income(loss):						
Foreign currency translation, net of taxes of $1,384	—	—	—	—	2,164	2,164
Investment securities, net of taxes of $21	—	—	—	—	(37)	(37)
Comprehensive loss						(68,612)
Restricted stock issued	148	148	33	—	—	181
Stock options exercised (including related tax benefits)	20	20	172	—	—	192
Common stock issued for interest on trust preferred securities	477	477	3,987	—	—	4,464
Balance April 27, 2003	35,935	35,935	250,175	(173,076)	(2,066)	110,968
Comprehensive loss:						
Net loss	—	—	—	(22,261)	—	(22,261)
Other comprehensive income:						
Foreign currency translation, net of taxes of $648	—	—	—	—	1,460	1,460
Investment securities, net of taxes of $25	—	—	—	—	43	43
Comprehensive loss						(20,758)
Vesting of deferred compensation related to restricted stock issuance	—	—	142	—	—	142
Stock options exercised	810	810	4,507	—	—	5,317
Common stock issued—private placement	2,674	2,674	22,256	—	—	24,930
Conversion of trust preferred securities to common stock	12,656	12,656	113,027	—	—	125,683
Balance April 25, 2004	52,075	52,075	390,107	(195,337)	(563)	246,282
Comprehensive loss:						
Net loss	—	—	—	(161,459)	—	(161,459)
Other comprehensive income:						
Foreign currency translation, net of taxes of $1,641	—	—	—	—	1,994	1,994
Investment securities, net of taxes of $2	—	—	—	—	(4)	(4)
Comprehensive loss						(159,469)
Conversion of subordinated debentures to common stock	3,191	3,191	31,429	—	—	34,620
Stock options exercised	777	777	3,190	—	—	3,967
Amortization of restricted stock	—	—	56	—	—	56
Balance April 24, 2005	56,043	$56,043	$424,782	$(356,796)	$ 1,427	$ 125,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14) Convertible Subordinated Debentures

The Company has owned three Delaware business trusts that each issued a separate series of optionally redeemable convertible trust preferred securities, convertible into shares of the Company's common stock. The combined proceeds from the sale of the transactions and from the purchase by the Company of the common shares of the business trusts were tendered to the Company in exchange for separate series of convertible subordinated debentures. These debentures represent the sole assets of the business trusts. Under FIN 46R, "Consolidation of Variable Interest Entities," the business trusts are deemed to have no primary beneficiary and, although wholly owned by the Company, are not to be consolidated. As a result, the convertible subordinated debentures, issued by the Company, are presented as a long-term liability. The Company called the securities held by two of the trusts for redemption and entered into a series of transactions (described below) that spanned our fiscal 2004 year end. As of June 4, 2004, all of the outstanding securities held by two of the trusts were redeemed for cash or were converted into common stock. These transactions are more fully described below and the securities and amounts outstanding as of April 24, 2005, are summarized in the following table (dollar amounts in thousands):

Series	Convertible Subordinated Debentures Outstanding	Number of Trust Preferred Securities Outstanding	Par Value Per Share	Aggregate Amount of Trust Preferred Securities Outstanding	Maturity	Interest Rate	Conversion Price
Trust I	$210,142	4,025,000	$50	$201,250	2028	6%	$48.72 or 1.02627 shares of common stock per share of Trust I Securities

During fiscal 1998, Fleetwood Capital Trust (Trust I), a Delaware business trust wholly owned by the Company, completed a $287.5 million private placement of 5,750,000 shares of 6% Convertible Trust Preferred Securities due February 15, 2028 (Trust I Securities) with a liquidation value of $50 per security. The combined proceeds from the transaction and from the purchase by the Company of the common shares of Trust I were tendered to the Company in exchange for 6% Convertible Subordinated Debentures due February 15, 2028 (Trust I Debentures) in the aggregate principal amount of $296.4 million. In a subsequent exchange offer, described below, the number of Trust I Securities outstanding was reduced to 4,025,000 and the aggregate principal amount outstanding was reduced to $201,250,000.

Distributions on the Trust I Securities are cumulative and are paid quarterly in arrears at an annual rate of 6 percent. The Company has the option to defer payment of the distributions for an extended period of up to 20 consecutive quarters, so long as the Company is not in default in the payment of interest on the debentures and discontinues the payment of dividends on common stock while the deferral is in effect. Considered together, the undertakings under the trust, the related indentures and guarantees and the convertible subordinated debentures constitute a full and unconditional guarantee by the Company of the trust's obligations under the securities. Beginning with the third quarter of fiscal 2002, the Company elected to defer the quarterly distributions on the Trust I Securities. The total amount deferred, including accrued interest, was $49.6 million at the end of fiscal 2005. The Company presently intends to continue to defer the distribution on the Trust I Securities through August 2006, which would be the last of these consecutive quarterly distributions that could be deferred under the terms of the governing instruments. During a period of distribution deferral, the Company is prevented from declaring or paying dividends on the common stock.

The Trust I Securities are convertible, at the option of the holder, at any time at the rate of 1.02627 shares of Fleetwood common stock (i.e., a conversion price of $48.72 per common share), subject to adjustment in certain circumstances. Since February 15, 2001, the Trust I Debentures have been redeemable in whole or in part, at the option of the Company, at a price equal to a premium currently 100.75 percent of the principal amount plus accrued and unpaid interest, declining annually to par if redeemed on or after February 15, 2006. The Trust I Securities are subject to mandatory redemption to the extent of any early redemption of the Trust I Debentures and upon maturity of the Trust I Debentures on February 15, 2028.

In December 2001, Fleetwood Capital Trust III (Trust III), also a Delaware business trust wholly owned by the Company, completed a $150.0 million private placement of

3,000,000 shares of 9.5% Convertible Trust III Preferred Securities due February 15, 2013 (Trust III Securities) with a face value of $50 per share. The combined proceeds from the transaction and from the purchase by the Company of the common shares of Trust III were tendered to the Company in exchange for 9.5% Convertible Trust III Subordinated Debentures due February 15, 2013 (Trust III Debentures) in the aggregate principal amount of $154.6 million.

On March 9, 2004, the Company announced that it was calling $50 million aggregate principal amount of the Trust III Securities for redemption. On March 30, 2004, the Company called the remaining $100 million aggregate principal amount of Trust III Securities for redemption. Subsequently, virtually all of the holders of the Trust III Securities converted their securities into an aggregate of 14,478,578 shares of the Company's common stock, including some who had entered into privately negotiated transactions with the Company to convert their securities, prior to the respective redemption dates, in exchange for a cash incentive. As a result, as of the end of fiscal 2004, April 25, 2004, there remained 377,726 shares of Trust III Securities outstanding, with an aggregate principal amount of $18.9 million, and as of April 29, 2004, which was the final redemption date pursuant to the Company's calls for redemption, there were no Trust III Securities outstanding.

In January 2002, Fleetwood Capital Trust II (Trust II), another wholly owned Delaware business trust, issued 1,725,000 shares of 9.5% Convertible Trust II Preferred Securities due February 15, 2013 (Trust II Securities) with a face value of $22 per share and an aggregate liquidation value of $37.95 million to Trust I Securities holders in exchange for 1,725,000 shares of Trust I Securities with a $50 face value and an aggregate liquidation value of $86.25 million. The Trust I Securities and the proceeds from the purchase by the Company of the common shares of Trust II were tendered to the Company in exchange for new 9.5% Convertible Subordinated Debentures due February 15, 2013 (Trust II Debentures) in the amount of $39.12 million. In turn, the Company tendered the $86.25 million of Trust I securities to Trust I to be retired in exchange for the cancellation of a like amount of Trust I Debentures.

On May 5, 2004, the Company called the Trust II Securities for redemption with a redemption date of June 4, 2004. Several of the holders of the Trust II Securities converted their holdings to shares of the Company's common stock, including some who entered into privately negotiated transactions with the Company to convert their securities, prior to the redemption date, in exchange for a cash incentive. Accordingly, as of the June 4, 2004, redemption date, pursuant to the Company's call for redemption, 781,065 shares of the Trust II Securities had been converted into an aggregate of 1,368,074 shares of the Company's common stock, and 943,935 shares of the Trust II Securities were redeemed for an aggregate of $22.2 million in cash, representing $20.8 million in aggregate principal amount, $1.3 million in redemption premium and $104,000 in accrued but unpaid interest to the redemption date.

Preferred Stock Conversion

5.39

WYETH (DEC)

Consolidated Statements of Changes in Stockholders' Equity

(In thousands except per share amounts)	$2.00 Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2003	$ 46	$ 442,019	$4,582,773	$ 3,286,645	$(155,571)	$ 8,155,912
Net income				2,051,192		2,051,192
Currency translation adjustments					691,362	691,362
Unrealized losses on derivative contracts, net					(32,887)	(32,887)
Unrealized gains on marketable securities, net					7,780	7,780
Realized gain on sale of Amgen stock reclassified to net income					(515,114)	(515,114)
Minimum pension liability adjustments					(22,057)	(22,057)
Comprehensive income, net of tax						2,180,276
Cash dividends declared:						
Preferred stock (per share: $2.00)				(35)		(35)
Common stock (per share: $0.92)				(1,223,123)		(1,223,123)
Common stock issued for stock options		2,058	124,837			126,895
Other exchanges	(4)	74	56,780	(2,394)		54,456
Balance at December 31, 2003	42	444,151	4,764,390	4,112,285	(26,487)	9,294,381
Net income				1,233,997		1,233,997
Currency translation adjustments					451,892	451,892
Unrealized gains on derivative contracts, net					10,354	10,354
Unrealized losses on marketable securities, net					(8,226)	(8,226)
Minimum pension liability adjustments					39,619	39,619
Comprehensive income, net of tax						1,727,636
Cash dividends declared:						
Preferred stock (per share: $2.00)				(33)		(33)
Common stock (per share: $0.92)				(1,227,001)		(1,227,001)
Common stock issued for stock options		779	56,694			57,473
Other exchanges	(2)	101	(4,060)	(592)		(4,553)
Balance at December 31, 2004	40	445,031	4,817,024	4,118,656	467,152	9,847,903
Net income				3,656,298		3,656,298
Currency translation adjustments					(492,784)	(492,784)
Unrealized gains on derivative contracts, net					32,518	32,518
Unrealized losses on marketable securities, net					(4,128)	(4,128)
Minimum pension liability adjustments					(67,483)	(67,483)
Comprehensive income, net of tax						3,124,421
Cash dividends declared:						
Preferred stock (per share: $2.00)				(30)		(30)
Common stock (per share: $0.94)				(1,259,368)		(1,259,368)
Common stock issued for stock options		2,637	232,355			234,992
Other exchanges	(3)	115	47,849	(1,510)		46,451
Balance at December 31, 2005	$ 37	$ 447,783	$5,097,228	$ 6,514,046	$ (64,725)	$11,994,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Capital Stock

There were 2,400,000,000 shares of common stock and 5,000,000 shares of preferred stock authorized at December 31, 2005 and 2004. Of the authorized preferred shares, there is a series of shares (14,715 and 16,122 outstanding at December 31, 2005 and 2004, respectively), which is designated as $2.00 convertible preferred stock. Each share of the $2.00 series is convertible at the option of the holder into 36 shares of common stock. This series may be called for redemption at $60.00 per share plus accrued dividends.

Changes in outstanding common shares during 2005, 2004 and 2003 were as follows:

(In thousands except shares of preferred stock)	2005	2004	2003
Balance at January 1	1,335,092	1,332,452	1,326,055
Issued for stock options	7,991	2,373	6,310
Conversions of preferred stock (1,407,812 and 1,384 shares in 2005, 2004 and 2003, respectively) and other exchanges	266	267	87
Balance at December 31	1,343,349	1,335,092	1,332,452

Stock Option Tax Benefit

5.40

COMMERCIAL METALS COMPANY (AUG)

Consolidated Statements of Stockholders' Equity

	Common Stock						Treasury Stock		
(In thousands, except share data)	Number of Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Retained Earnings	Number of Shares	Amount	Total
Balance, September 1, 2002	32,265,166	$161,326	$ 170	$ (1,458)		$ 392,004	(3,746,713)	$ (50,736)	$501,306
Comprehensive income:									
Net earnings						18,904			18,904
Other comprehensive income (loss)—									
Foreign currency translation adjustment, net of taxes of $2,076				3,855					3,855
Unrealized loss on derivatives, net of taxes of $(16)				(29)					(29)
Comprehensive income									22,730
Cash dividends						(9,039)			(9,039)
Treasury stock acquired							(951,410)	(14,610)	(14,610)
Stock issued under incentive and purchase plans			363				427,647	5,853	6,216
Tax benefits from stock plans			330						330
Balance, August 31, 2003	32,265,166	$161,326	$ 863	$ 2,368		$ 401,869	(4,270,476)	$ (59,493)	$506,933

(continued)

(In thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Total
Balance, August 31, 2003	32,265,166	$161,326	$ 863	$ 2,368		$ 401,869	(4,270,476)	$ (59,493)	$506,933
Comprehensive income:									
Net earnings						132,021			132,021
Other comprehensive income—									
Foreign currency translation adjustment, net of taxes of $4,996				9,279					9,279
Unrealized gain on derivatives, net of taxes of $574				1,066					1,066
Comprehensive income									142,366
Cash dividends						(9,764)			(9,764)
Treasury stock acquired							(143,847)	(4,586)	(4,586)
Stock issued under incentive and purchase plans			921				1,427,121	18,609	19,530
Tax benefits from stock plans			6,148						6,148
Balance, August 31, 2004	32,265,166	161,326	7,932	12,713		524,126	(2,987,202)	(45,470)	660,627
Comprehensive income:									
Net earnings						285,781			285,781
Other comprehensive income—									
Foreign currency translation adjustment, net of taxes of $240				12,778					12,778
Unrealized loss on derivatives, net of taxes of $(257)				(897)					(897)
Comprehensive income									297,662
Cash dividends						(13,652)			(13,652)
Treasury stock acquired							(3,039,110)	(77,077)	(77,077)
Restricted stock awarded			2,600		(6,737)		272,000	4,137	—
Stock-based compensation			279		836				1,115
Stock issued under incentive and purchase plans			1,209				2,174,293	17,494	18,703
Tax benefits from stock plans			12,183						12,183
Two-for-one stock split	32,265,166	161,326	(9,390)			(151,936)	(2,819,590)		—
Balance, August 31, 2005	64,530,332	$322,652	$14,813	$24,594	$(5,901)	$ 644,319	(6,399,609)	$(100,916)	$899,561

Compensation Recognized

5.41

INGRAM MICRO INC. (DEC)

Consolidated Statement of Stockholders' Equity

(Dollars in 000s)	Common Stock Class A	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total
December 28, 2002	$1,508	$707,689	$ 952,753	$(25,548)	$ (413)	$1,635,989
Stock options exercised	11	10,251				10,262
Income tax benefit from exercise of stock options		1,151				1,151
Grant of restricted class A common stock		460			(460)	—
Issuance of class A common stock related to employee stock purchase plan	1	474				475
Stock-based compensation expense		785			726	1,511
Comprehensive income			149,201	74,360		223,561
January 3, 2004	1,520	720,810	1,101,954	48,812	(147)	1,872,949
Stock options exercised	66	84,452				84,518
Income tax benefit from exercise of stock options		10,099				10,099
Grant of restricted class A common stock		589			(589)	—
Issuance of class A common stock related to employee stock purchase plan	1	757				758
Stock-based compensation expense		935			736	1,671
Surrender of restricted class A common stock associated with payment of withholding tax		(264)				(264)
Comprehensive income			219,901	51,178		271,079
January 1, 2005	1,587	817,378	1,321,855	99,990	—	2,240,810
Stock options exercised	36	49,240				49,276
Income tax benefit from exercise of stock options		6,584				6,584
Grant of restricted class A common stock and stock units	1	1,031			(1,032)	—
Stock-based compensation expense		751			937	1,688
Comprehensive income			216,906	(76,666)		140,240
December 31, 2005	$1,624	$874,984	$1,538,761	$ 23,324	$ (95)	$2,438,598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in 000s, except per share data)

Note 2 (In Part): Significant Accounting Policies

Accounting for Stock-Based Compensation

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock Based Compensation—Transition and Disclosure" ("FAS 148"), which amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." As permitted by FAS 148, the Company has continued to measure compensation cost in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, but provides pro forma disclosures of net income and earnings per share as if the fair-value method had been applied. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions to stock-based employee compensation.

	2005	2004	2003
Net income, as reported	$216,906	$219,901	$149,201
Compensation expense as determined under FAS 123, net of related tax effects	17,068	26,479	28,363
Pro forma net income	$199,838	$193,422	$120,838
Earnings per share:			
Basic—as reported	$ 1.35	$ 1.41	$ 0.99
Basic—pro forma	$ 1.25	$ 1.24	$ 0.80
Diluted—as reported	$ 1.32	$ 1.38	$ 0.98
Diluted—pro forma	$ 1.21	$ 1.21	$ 0.79

The weighted average fair value per option granted in 2005, 2004, and 2003 was $6.04, $4.80, and $3.93, respectively. The fair value of options was estimated using the Black-Scholes option-pricing model assuming no dividends and using the following weighted average assumptions:

	2005	2004	2003
Risk-free interest rate	3.71%	2.72%	1.90%
Expected years until exercise	3.5 years	3.0 years	3.0 years
Expected stock volatility	41.8%	41.8%	49.3%

New Accounting Standards (In Part)

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("FAS 123R"). In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107, "Share-Based Payment," which further explains FAS 123R. FAS 123R revises Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("FAS 123"), and supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." FAS 123R as amended requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values and is effective for the Company's fiscal year beginning January 1, 2006. The pro forma disclosures previously permitted under FAS 123 will no longer be an alternative to financial statement recognition. Based on the Company's evaluation of the requirements of FAS 123R, as well as its existing long-term incentive compensation strategies, the Company currently expects that it will incur approximately $30,000 in an additional operating expenses throughout 2006 resulting from the adoption of FAS 123R.

Note 12 (In Part): Stock Options and Equity Incentive Plans

The following summarizes the Company's existing stock option and equity incentive plans.

Equity Incentive Plans

In 2003, the Company's shareowners approved the Ingram Micro Inc. 2003 Equity Incentive Plan, which replaced the Company's three existing shareowner-approved equity incentive plans, the 1996, 1998 and 2000 Equity Incentive Plans (collectively called "the Equity Incentive Plans"), for the granting of stock-based incentive awards including incentive stock options, non-qualified stock options, restricted stock, and stock appreciation rights, among others, to key employees and members of the Company's Board of Directors. As of December 31, 2005, approximately 18,100,000 shares were available for grant. Options granted under the Equity Incentive Plans were issued at exercise prices ranging from $9.75 to $53.56 per share and have expiration dates not longer than 10 years from the date of grant. The options granted generally vest over a period of three years.

In 2005, 2004 and 2003, the Company granted a total of 52,129, 35,019 and 40,676 shares, respectively, of restricted Class A Common Stock to board members under the Equity Incentive Plans. These shares have no purchase price and vest over a one-year period. The Company recorded unearned compensation in 2005, 2004 and 2003 of $925, $589 and $460 respectively, as a component of stockholders' equity upon issuance of these grants. In addition, in 2005, the Company granted to certain employees a total of 5,800 restricted stock units convertible upon vesting to the same number of Class A Common Stock under the Equity Incentive Plans. These units have no purchase price and vest over a period of one to three years. The Company recorded unearned compensation in 2005 of $107 as a component of stockholders' equity upon issuance of these units.

In August 2001, the Human Resources Committee of the Company's Board of Directors authorized a modification of the exercise schedule to retirees under the Equity Incentive Plans. The modification extended the exercise period upon retirement (as defined in the Equity Incentive Plans) from 12 months to 60 months for outstanding options as of August 1, 2001 and for all options granted thereafter, but not to exceed the contractual life of the option. Compensation expense will be recorded upon the retirement of eligible employees (associates 50 years of age and older who have five or more years of service) and is calculated based on the excess of the fair value of the Company's stock on the modification date ($14.28 per share) over the exercise price of the modified option multiplied by the number of vested but unexercised options outstanding upon retirement. A noncash compensation charge of $353, $935 and $785 was recorded in 2005, 2004 and 2003, respectively, relating to this modification. In addition, a noncash compensation charge of $398 was recorded in 2005, relating to a stock modification for an extension of the exercise period for certain stock options of an executive who has retired from the Company.

A summary of activity under the Company's stock option plans is presented below:

	Shares (000s)	Weighted-Average Exercise Price
Outstanding at December 28, 2002	29,392	$16.42
Stock options granted during the year	10,445	11.23
Stock options exercised	(1,106)	9.28
Forfeitures	(2,297)	15.71
Outstanding at January 3, 2004	36,434	15.19
Stock options granted during the year	6,750	15.47
Stock options exercised	(6,695)	12.62
Forfeitures	(3,830)	17.25
Outstanding at January 1, 2005	32,659	15.40
Stock options granted during the year	4,748	17.28
Stock options exercised	(3,576)	13.78
Forfeitures	(3,273)	17.86
Outstanding at December 31, 2005	30,558	15.61

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2005 (000s)	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2005 (000s)	Weighted-Average Exercise Price
$ 9.75–$12.35	8,455	6.3	$11.29	6,255	$11.35
$12.56–$15.90	9,213	7.2	14.13	5,414	13.62
$16.10–$19.93	11,013	6.8	17.48	6,882	17.26
$20.00–$27.00	281	1.7	25.26	269	25.48
$27.88–$53.56	1,596	0.7	32.57	1,596	32.57
	30,558	6.4	15.61	20,416	15.79

Stock options exercisable totaled approximately 20,416,000, 18,470,000 and 20,637,000 at December 31, 2005, January 1, 2005 and January 3, 2004, respectively, at weighted-average exercise prices of $15.79, $16.74 and $16.92, respectively.

5.42

KOHL'S CORPORATION (JAN)

Consolidated Statement of Changes in Shareholders' Equity

	Common Stock				
(In thousands)	Shares	Amount	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balance at February 1, 2003 (previously reported)	337,322	$3,373	$1,082,277	$2,393,692	$3,479,342
Cumulative effect of restatement on prior years (see Note 2)	—	—	167,047	(114,663)	52,384
Balance at February 1, 2003 (as restated, see Note 2)	337,322	3,373	1,249,324	2,279,029	3,531,726
Exercise of stock options	2,819	28	46,229	—	46,257
Income tax benefit from exercise of stock options	—	—	31,719	—	31,719
Share-based compensation expense	—	—	55,358	—	55,358
Net income	—	—	—	546,463	546,463
Balance at January 31, 2004 (as restated, see Note 2)	340,141	3,401	1,382,630	2,825,492	4,211,523
Exercise of stock options	3,204	32	47,062	—	47,094
Income tax benefit from exercise of stock options	—	—	28,505	—	28,505
Share-based compensation expense	—	—	43,375	—	43,375
Net income	—	—	—	703,401	703,401
Balance at January 29, 2005 (as restated, see Note 2)	343,345	3,433	1,501,572	3,528,893	5,033,898
Exercise of stock options	1,743	17	22,841	—	22,858
Income tax benefit from exercise of stock options	—	—	14,458	—	14,458
Share-based compensation expense	—	—	40,639	—	40,639
Unearned compensation amortization	—	—	3,525	—	3,525
Net income	—	—	—	841,960	841,960
Balance at January 28, 2006	345,088	$3,450	$1,583,035	$4,370,853	$5,957,338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Stock Options

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS No. 123R), "Share Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the "modified retrospective" method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnote disclosures. See Note 2 for the effect of the adoption on the fiscal 2004 and 2003 results.

As of January 28, 2006, the Company had three long-term compensation plans. Information related to the outstanding stock options and nonvested stock are disclosed in Note 9.

New Accounting Pronouncements (In Part)

In October 2005, the FASB issued FASB Staff Position FAS 123 (R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)" (FSP 123(R)-2). SFAS No. 123 R requires companies to estimate the fair value of share based payment awards when the award has been granted. One of the criteria for determining that an award has been granted is that the employer and its employees have a mutual understanding of the key terms and conditions of the award. Under FSP 123 (R)-2, a mutual understanding is assumed to exist on the date the award is approved by the Board of Directors and key terms and conditions of the award are expected to be communicated to the individual within a relatively short time period from the date of approval. This FSP 123 (R)-2 is applicable upon initial adoption of SFAS No. 123R or for companies who have already adopted SFAS No. 123 R, the first reporting period after the FSP is posted to the FASB website. As required, the Company applied the guidance in FSP 123 (R)-2 beginning October 2005. The adoption of this guidance did not have a material impact on the Company's net earnings, cash flows or financial position.

2 (In Part): Restatement of Financial Statements

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the "modified retrospective" method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnotes.

Below is a summary of the effects of the restatement on the Company's consolidated balance sheet as of January 29, 2005, as well as the effects of these changes on the Company's consolidated statements of income and consolidated statements of cash flows for fiscal years 2004 and 2003. The cumulative effect of the restatement relating to fiscal years 1995 through 2002 is an increase in paid-in capital of $167.0 million, an increase in deferred income taxes of $52.3 million and an increase in selling, general and administrative expenses (S,G&A) of $185.9 million. As a result, retained earnings at January 31, 2004 decreased by $114.7 million.

	Consolidated Balance Sheets		
(In thousands)	As Previously Reported	Adjustments	As Restated
January 29, 2005			
Deferred income taxes	$ 296,551	$ (67,170)	$ 229,381
Paid-in capital	1,258,326	243,246	1,501,572
Retained earnings	3,704,969	(176,076)	3,528,893

9 (In Part): Preferred and Common Stock

The Company's 1994 and 2003 Long-Term Compensation Plans provide for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of the Company's common stock, to officers and key employees. The 1997 Stock Option Plan for Outside Directors provides for granting of equity-based awards to outside directors.

The following table presents the number of options and nonvested stock initially authorized and available to grant under each of the plans:

	1994 Plan	1997 Plan	2003 Plan	Total
Options and nonvested stock initially authorized	24,000,000	400,000	15,000,000	39,400,000
Options and nonvested stock available for grant				
January 29, 2005	—	267,000	14,208,750	14,475,750
January 28, 2006	—	244,500	11,514,544	11,759,044

The majority of options granted vest in four equal annual installments. Remaining options granted vest in five to ten year increments. The nonvested stock granted vests in three equal installments over three years. Options and nonvested stock that are surrendered or terminated without issuance of shares are available for future grants.

Annual awards of stock options to eligible associates are made in the first quarter of the subsequent fiscal year. All awards to outside directors during fiscal 2003, 2004 and 2005 were granted under the 1997 plan.

The fair value of each option award is estimated using a Black-Scholes option valuation model that requires the Company to develop estimates for assumptions used in the model. The Black-Scholes option valuation model uses the following assumptions: expected volatility, expected life of the option, risk-free interest rate and dividend yield. The Black-Scholes model was used to estimate the fair value of options at grant date based on the following assumptions:

	2005	2004	2003
Dividend yield	0%	0%	0%
Volatility	0.342	0.339	0.339
Risk-free interest rate	3.8%	3.5%	3.5%
Expected life in years	6.5	6.2	6.0
Weighted average fair value at grant date	$20.16	$19.16	$20.49

The expected volatility assumption used by the Company is based on the historical volatility of the Company's stock. The Company uses historical data to estimate the expected term of the option and the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the life of the option is based on a blend of U.S. Treasury bond rates. The dividend yield represents the expected dividends on the Company stock for the expected term of the option.

SFAS No. 123R requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to adoption of SFAS No. 123 R, the Company accounted for forfeitures as they occurred as permitted under previous accounting standards. The cumulative effect of adopting the change in estimating forfeitures is not material to the Company's financial statements for the year ended January 28, 2006.

The following table summarizes the Company's stock option activity from February 1, 2003 through January 28, 2006:

	Number of Options	Weighted Average Exercise Price
Balance at February 1, 2003	18,909,268	$31.70
Granted	2,919,739	51.71
Surrendered	(1,094,219)	56.78
Exercised	(2,818,879)	16.41
Balance at January 31, 2004	17,915,909	35.85
Granted	2,177,589	47.84
Surrendered	(1,726,688)	47.67
Exercised	(3,203,495)	14.66
Balance at January 29, 2005	15,163,315	40.70
Granted	2,788,486	47.95
Surrendered	(631,765)	55.45
Exercised	(1,517,967)	15.37
Balance at January 28, 2006	15,802,069	$43.82

The aggregate intrinsic value of the options outstanding at January 28, 2006 was $112.7 million and the intrinsic value of the options exercisable at January 28, 2006 was $108.4 million.

As of January 28, 2006, there was $85.2 million of unrecognized compensation cost related to stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.0 years. The total compensation cost recognized related to options during the years ended January 28, 2006, January 29, 2005 and January 31, 2004 was $40.4 million, $43.4 million and $55.4 million, respectively. These amounts were expensed and included in selling, general and administrative (SG&A) expenses in the accompanying Consolidated Statements of Income.

Options exercisable at:

	Shares	Weighted Average Exercise Price
January 28, 2006	9,856,271	$40.31
January 29, 2005	9,816,584	$35.26
January 31, 2004	12,012,527	$29.23

Additional information related to options outstanding at January 28, 2006, segregated by grant price range, is summarized below:

	Exercise Price Range				
	$7.14 to $24.76	$24.77 to $42.38	$42.39 to $49.56	$49.57 to $60.00	$60.01 to $77.62
Options outstanding	2,539,120	3,393,633	3,441,033	3,169,788	3,258,495
Weighted average exercise price of options outstanding	$ 13.41	$ 34.06	$ 47.35	$ 51.91	$ 66.10
Weighted average remaining contractual life of options outstanding (years)	3.9	8.8	13.7	12.3	10.7
Options exercisable	2,459,120	3,114,429	333,126	1,306,375	2,643,221
Weighted average exercise price of options exercisable	$ 13.61	$ 33.55	$ 48.62	$ 52.14	$ 66.21
Weighted average remaining contractual life of options exercisable (years)	4.1	8.5	13.0	11.4	10.5

The aggregate intrinsic value of the options exercised during the years ended January 28, 2006, January 29, 2005 and January 31, 2004 was $55.0 million, $107.8 million and $111.1 million, respectively.

The Company has awarded shares of nonvested common stock to eligible key employees. All awards have restriction periods tied primarily to employment and/or service. The awards vest over three years. The awards are expensed on a straight-line basis over the vesting period. The Company's nonvested stock activity during the year ended January 28, 2006 was as follows:

	Nonvested Stock	
(In thousands except per share)	Shares	Weighted-Average Grant Date Fair Value
Granted during 2004 and nonvested at January 29, 2005	100	$49.27
Granted	137	48.47
Vested	(33)	49.27
Forfeited	—	—
Nonvested at January 28, 2006	204	$48.82

There was $7.9 million and $4.8 million of unearned compensation cost related to the nonvested stock granted under the plans as of January 28, 2006 and January 29, 2005, respectively. The cost is expected to be recognized over a weighted-average period of 2.1 years. Total compensation expense recognized related to nonvested stock during the years ended January 28, 2006 and January 29, 2005 was $3.5 million and $0.1 million, respectively. There was no nonvested stock granted as of January 31, 2004.

Warrants Issued/Exercised

5.43

LUCENT TECHNOLOGIES INC. (SEP)

Consolidated Statements of Changes in Shareowners' Equity (Deficit)

(In millions)	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareowners' Equity (Deficit)
Balance as of September 30, 2002	3,490	$35	$20,606	$(22,025)	$(3,350)	$(4,734)
Net loss				(770)		(770)
Minimum pension liability adjustment					(594)	(594)
Foreign currency translation adjustment					135	135
Unrealized holding gains on certain investments					71	71
Comprehensive loss						(1,158)
Issuance of common stock in connection with the exchange of convertible securities and certain other debt obligations	563	6	1,430			1,436
Conversion costs in connection with the exchange of 7.75% trust preferred securities			129			129
Issuance of common stock in connection with the payment of preferred stock dividend	46	1	85			86
Issuance of common stock in connection with contribution to Lucent Technologies Inc. Represented Employees Post-retirement Health Benefits Trust	46		76			76
Issuance of common stock related to employee benefit plans	24		51			51
Preferred stock dividends and accretion			(103)			(103)
Other			(22)			(22)
Balance as of September 30, 2003	4,169	42	22,252	(22,795)	(3,738)	(4,239)
Net income				2,002		2,002
Minimum pension liability adjustment					150	150
Reclassification adjustment for realized gains on investments					(75)	(75)
Foreign currency translation adjustments					34	34
Unrealized holding losses on investments					(6)	(6)
Comprehensive income						2,105
Issuance of common stock in connection with the exchange of certain debt obligations	22		92			92
Issuance of common stock related to employee benefit plans	93	1	291			292
Issuance of common stock in connection with settlement of shareowner lawsuits	33		105			105
Issuance of common stock related to Telica acquisition	78	1	253			254
Preferred stock dividends and accretion			12			12
Balance as of September 30, 2004	4,395	44	23,005	(20,793)	(3,635)	(1,379)
Net income				1,185		1,185
Minimum pension liability adjustment					46	46
Foreign currency translation adjustments					27	27
Unrealized holding losses on investments					(13)	(13)
Comprehensive income						1,245
Issuance of warrants to purchase common stock in connection with settlement of shareowner lawsuits			323			323
Issuance of common stock related to employee benefit plans	48	1	143			144
Issuance of common stock related to Telica acquisition	3		8			8
Other	1		34			34
Balance as of September 30, 2005	4,447	$45	$23,513	$(19,608)	$(3,575)	$ 375

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Financial Instruments

Warrants

In connection with our shareholder lawsuit settlement, we issued warrants to purchase 200 million shares of our common stock during December 2004, of which 199 million were outstanding as of September 30, 2005. The warrants have an exercise price of $2.75 per share and expire on December 10, 2007.

13 (In Part): Commitments and Contingencies

Legal Proceedings (In Part)

Securities and Related Cases

We settled the majority of the assorted securities, ERISA and derivative class action and other related lawsuits against us and certain of our current and former directors, officers and employees. The settlement covers all claims generally relating to the purchase of Lucent securities during different class periods and is a global settlement of 53 separate lawsuits, including a consolidated shareowner class action lawsuit in the U.S. District Court of New Jersey, and related ERISA, bondholder, derivative, and other state securities cases. The net charges related to our global securities and related cases, including changes in the fair market value of warrants that were issued as part of the settlement and insurance recoveries, were $54 million, $56 million and $481 million during fiscal 2005, 2004 and 2003, respectively. Presently, with the exception of one case, all other cases brought by individual investors who opted out of the class action settlement have been resolved. We will defend any lawsuits that may be brought by parties that have opted out or that were not part of the settlement. We currently do not have any material opt out or related securities cases pending.

Change in Par Value

5.44

ASHLAND INC. (SEP)

Statements of Consolidated Stockholders' Equity

(In millions)	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2002	$ 68	$ 338	$1,961	$(194)	$2,173
Total comprehensive income			75	68	143
Cash dividends, $1.10 per common share			(75)		(75)
Issued 81,698 common shares under stock incentive and other plans		12			12
Balance at September 30, 2003	68	350	1,961	(126)	2,253
Total comprehensive income			378	20	398
Cash dividends, $1.10 per common share			(77)		(77)
Issued 3,310,204 common shares under stock incentive and other plans	4	128			132
Balance at September 30, 2004	72	478	2,262	(106)	2,706
Total comprehensive income			2,004	(12)	1,992
Cash dividends, $1.10 per common share			(79)		(79)
Distribution of Marathon shares from the MAP Transaction			(936)		(936)
Change in par value of common stock—Note M	(74)	74			—
Issued 3,055,082 common shares under stock incentive and other plans	3	153			156
Repurchase of 1,768,600 common shares		(100)			(100)
Balance at September 30, 2005	$ 1	$ 605	$3,251	$(118)	$3,739

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Information by Industry Segment

Ashland's businesses are managed along four industry segments: APAC, Ashland Distribution, Ashland Specialty Chemical and Valvoline. Ashland also held a 38% interest in Marathon Ashland Petroleum LLC (MAP), which was the primary component of its Refining and Marketing segment, through June 30, 2005.

Note D (In Part): MAP Transaction

On June 30, 2005, Ashland completed its previously announced agreement with Marathon to transfer Ashland's 38% interest in MAP and two other businesses to Marathon in a transaction valued at approximately $3.7 billion (the "MAP Transaction"). The two other businesses were Ashland's maleic anhydride business and 60 Valvoline Instant Oil Change centers in Michigan and northwest Ohio.

As a result of the transaction, Old Ashland shareholders of record as of the close of business on June 30, 2005 received .2364 Marathon shares and one Ashland share per Old Ashland share. In total, Ashland's shareholders received 17,538,815 shares of Marathon common stock with an aggregate value of $936 million based upon the June 30 closing price of Marathon stock. Additionally, the transaction resulted in Ashland's receipt of $2.4 billion in cash and MAP accounts receivable of $913 million, which totaled $3.3 billion. This amount was comprised of $2.8 billion of cash and accounts receivable, which amount was included in the $3.7 billion transaction value, and $518 million of additional cash and accounts receivable representing 38% of MAP's distributable cash and other adjustments as of June 30, 2005. As of September 30, 2005, substantially all of the receivables had been collected.

Note M (In Part): Capital Stock

In addition to other consideration received in connection with the MAP Transaction, Ashland shareholders received one share of Ashland common stock, par value $0.01 per share, in exchange for each share of Old Ashland common stock, par value $1.00 per share.

Treasury Stock Purchased

5.45

CIRCUIT CITY STORES, INC. (FEB)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(Amounts in thousands except per share data)	Shares Outstanding Circuit City	Shares Outstanding CarMax Group	Common Stock Circuit City	Common Stock CarMax Group	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at February 28, 2002	208,823	36,851	$104,411	$ 18,426	$893,537	$1,744,129	$ —	$2,760,503
Net earnings and comprehensive income	—	—	—	—	—	82,263	—	82,263
Compensation for stock options	—	—	—	—	34,637	—	—	34,637
Exercise of common stock options	311	246	156	123	5,035	—	—	5,314
Shares issued under employee stock purchase plans	457	—	229	—	7,400	—	—	7,629
Shares issued under stock incentive plans	843	—	421	—	17,207	—	—	17,628
Tax effect from stock issued	—	—	—	—	5,986	—	—	5,986
Cancellation of restricted stock	(479)	(8)	(240)	(4)	(8,081)	—	—	(8,325)
Unearned compensation restricted stock	—	—	—	—	9,830	—	—	9,830
Cash dividends—common stock ($0.07 per share)	—	—	—	—	—	(14,687)	—	(14,687)
Distribution of CarMax, Inc. common stock to stockholders	—	(37,089)	—	(18,545)	—	(536,765)	—	(555,310)
Special dividend from CarMax	—	—	—	—	—	28,400	—	28,400
Balance at February 28, 2003	209,955	—	$104,977	$ —	$965,551	$1,303,340	$ —	$2,373,868

(continued)

(Amounts in thousands except per share data)	Shares Outstanding Circuit City	Shares Outstanding CarMax Group	Common Stock Circuit City	Common Stock CarMax Group	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at February 28, 2003	209,955	—	$104,977	$ —	$965,551	$1,303,340	$ —	$2,373,868
Net loss and comprehensive loss	—	—	—	—	—	(89,269)	—	(89,269)
Repurchases of common stock	(9,266)	—	(4,633)	—	(79,720)	—	—	(84,353)
Compensation for stock options	—	—	—	—	24,184	—	—	24,184
Exercise of common stock options	1,369	—	685	—	11,843	—	—	12,528
Shares issued under stock incentive plans	2,546	—	1,273	—	19,312	—	—	20,585
Tax effect from stock issued	—	—	—	—	(10,595)	—	—	(10,595)
Cancellation of restricted stock	(705)	—	(352)	—	(10,074)	—	—	(10,426)
Unearned compensation restricted stock	—	—	—	—	2,099	—	—	2,099
Cash dividends—common stock ($0.07 per share)	—	—	—	—	—	(14,660)	—	(14,660)
Balance at February 29, 2004	203,899	—	101,950	—	922,600	1,199,411	—	2,223,961
Comprehensive income:								
Net earnings	—	—	—	—	—	61,658	—	61,658
Other comprehensive income, net of taxes:								
Foreign currency translation adjustment (net of deferred taxes of $13,707)	—	—	—	—	—	—	25,100	25,100
Comprehensive income								86,758
Repurchases of common stock	(19,163)	—	(9,582)	—	(250,250)	—	—	(259,832)
Compensation for stock options	—	—	—	—	18,739	—	—	18,739
Exercise of common stock options	3,489	—	1,745	—	26,761	—	—	28,506
Shares issued under stock incentive plans	723	—	361	—	7,393	—	—	7,754
Tax effect from stock issued	—	—	—	—	(1,564)	—	—	(1,564)
Cancellation of restricted stock	(798)	—	(399)	—	(6,378)	—	—	(6,777)
Shares issued in acquisition of InterTAN, Inc.	—	—	—	—	6,498	—	—	6,498
Unearned compensation restricted stock	—	—	—	—	(2,761)	—	—	(2,761)
Cash dividends—common stock ($0.07 per share)	—	—	—	—	—	(13,848)	—	(13,848)
Balance at February 28, 2005	188,150	—	$ 94,075	$ —	$721,038	$1,247,221	$25,100	$2,087,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Capital Stock

C. Common Stock Repurchased

In January 2003, the company's board of directors authorized the repurchase of up to $200 million of common stock. In June 2004, the board authorized a $200 million increase in its stock repurchase authorization, raising the total repurchase capacity to $400 million. In March 2005, the board authorized a $400 million increase in its stock repurchase authorization, raising the total repurchase capacity to $800 million, of which $455.8 million remained available at March 31, 2005. The company repurchased 19.2 million shares of common stock at a cost of $259.8 million during fiscal 2005. The company repurchased 9.3 million shares of common stock at a cost of $84.4 million during fiscal 2004. As of February 28, 2005, the company had repurchased 28.4 million shares of common stock at a cost of $344.2 million.

5.46

POLARIS INDUSTRIES INC. (DEC)

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(In thousands, except per share data)	Number of Shares	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2002	44,600	$446	—	$(12,106)	$289,433	$ (667)	$ 277,106
Employee stock compensation	386	4	11,087	3,184			14,275
Proceeds from stock issuances under employee plans	852	9	12,124				12,133
Tax effect of exercise of stock options			6,389				6,389
Cash dividends declared ($0.62 per share)					(26,657)		(26,657)
Repurchase and retirement of common shares	(2,476)	(25)	(29,600)		(43,500)		(73,125)
Comprehensive income:							
Net income					110,929		
Foreign currency translation adjustments, net						3,743	
Unrealized loss on derivative instruments, net						(5,415)	
Total comprehensive income							109,257
Balance, December 31, 2003	43,362	$434	—	$ (8,922)	$330,205	$(2,339)	$ 319,378
Employee stock compensation	139	1	16,073	406			16,480
Proceeds from stock issuances under employee plans	636	6	11,815				11,821
Tax effect of exercise of stock options			9,420				9,420
Cash dividends declared ($0.92 per share)					(38,856)		(38,856)
Repurchase and retirement of common shares	(1,396)	(14)	(37,308)		(29,508)		(66,830)
Comprehensive income:							
Net income					104,504		
Foreign currency translation adjustments, net						3,478	
Unrealized gain on derivative instruments, net						2,337	
Total comprehensive income							110,319
Balance, December 31, 2004	42,741	$427	—	$ (8,516)	$366,345	$ 3,476	$ 361,732
Employee stock compensation	197	2	7,409	4,993			12,404
Proceeds from stock issuances under employee plans	1,110	11	20,034				20,045
Tax effect of exercise of stock options			17,340				17,340
Cash dividends declared ($1.12 per share)					(46,956)		(46,956)
Repurchase and retirement of common shares	(2,361)	(23)	(44,783)		(87,474)		(132,280)
Comprehensive income:							
Net income					143,278		
Foreign currency translation adjustments, net						(7,377)	
Unrealized gain on derivative instruments, net						1,471	
Total comprehensive income							137,372
Balance, December 31, 2005	41,687	$417	—	$ (3,523)	$375,193	$(2,430)	$ 369,657

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Shareholders' Equity

Stock Repurchase Program

The Polaris Board of Directors has authorized the cumulative repurchase of up to 27,000,000 shares of the Company's common stock. During 2005, Polaris paid $132,280,000 to repurchase and retire approximately 2,361,000 shares. Cumulative repurchases through December 31, 2005 were approximately 22,342,000 shares at a cost of $581,046,000.

Treasury Stock Issued

5.47

BAXTER INTERNATIONAL INC. (DEC)

Consolidated Statements of Shareholders' Equity and Comprehensive Income

	2005		2004		2003	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock						
Beginning of year	648	$ 648	649	$ 649	627	$ 627
Common stock issued	—	—	—	—	22	22
Other	—	—	(1)	(1)	—	—
End of year	648	648	648	648	649	649
Common stock in treasury						
Beginning of year	30	(1,511)	37	(1,863)	27	(1,326)
Purchases of common stock	—	—	1	(18)	15	(714)
Common stock issued under employee benefit plans and other	(6)	361	(8)	370	(5)	177
End of year	24	(1,150)	30	(1,511)	37	(1,863)
Additional contributed capital						
Beginning of year		3,597		3,786		3,236
Common stock issued		—		—		622
Common stock issued under employee benefit plans and other		(151)		(189)		(72)
End of year		3,446		3,597		3,786
Retained earnings						
Beginning of year		2,259		2,230		1,740
Net income		956		388		866
Common stock cash dividends		(364)		(359)		(356)
Change to equity method of accounting for a minority investment and other		—		—		(20)
End of year		2,851		2,259		2,230
Accumulated other comprehensive loss						
Beginning of year		(1,288)		(1,420)		(1,264)
Other comprehensive income (loss)		(208)		132		(156)
End of year		(1,496)		(1,288)		(1,420)
Total shareholders' equity		$ 4,299		$ 3,705		$ 3,382
Comprehensive income						
Net income		$ 956		$ 388		$ 866
Currency translation adjustments		(370)		303		502
Hedges of net investments in foreign operations, net of tax expense (benefit) of $106 in 2005, ($134) in 2004, and ($232) in 2003		101		(171)		(384)
Other hedging activities, net of tax expense (benefit) of $38 in 2005, $21 in 2004, and ($54) in 2003		63		47		(106)
Marketable equity securities, net of tax expense of $1 in 2005, $1 in 2004, and $1 in 2003		1		1		2
Additional minimum pension liability, net of tax expense (benefit) of $12 in 2005, ($30) in 2004, and ($86) in 2003		(3)		(48)		(170)
Other comprehensive income (loss)		(208)		132		(156)
Total comprehensive income		$ 748		$ 520		$ 710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Common and Preferred Stock

Stock Compensation Plans

Stock Option Plans

Stock options have been granted to employees at various dates. Most grants have a 10-year term and have an exercise price at least equal to 100% of the market value on the date of grant. Vesting terms vary, with the majority of outstanding options vesting 100% in three years. As of December 31, 2005, 22,753,674 authorized shares are available for future awards under the company's stock option plans.

Stock Options Outstanding

The following is a summary of stock options outstanding at December 31, 2005.

(Option shares in thousands)	Options Outstanding			Vested Options	
Range of Exercise Prices	Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Vested	Weighted-Average Exercise Price
$20–28	13,102	5.2	$26.30	6,006	$24.96
29–39	23,371	7.4	32.40	7,689	31.15
40–44	9,951	4.9	41.29	9,793	41.31
45–47	10,117	5.2	45.42	10,117	45.42
48–56	9,445	6.0	51.93	9,445	51.93
$20–56	65,986	6.1	$37.32	43,050	$40.51

As of December 31, 2004 and 2003, there were 44,852,000 and 34,662,000 options exercisable, respectively, at weighted-average exercise prices of $38.09 and $32.26, respectively.

Stock Option Activity

(Option shares in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2002	69,830	$38.44
Granted	10,833	27.39
Exercised	(1,827)	20.08
Forfeited	(5,995)	42.28
Options outstanding at December 31, 2003	72,841	36.94
Granted	7,350	29.69
Exercised	(4,350)	23.73
Forfeited	(9,214)	38.11
Options outstanding at December 31, 2004	66,627	36.84
Granted	10,467	35.05
Exercised	(5,666)	26.03
Forfeited	(5,442)	38.81
Options outstanding at December 31, 2005	65,986	$37.32

Restricted Stock and Restricted Stock Unit Plans

The company grants restricted stock and restricted stock units to be settled in common stock (RSUs) to key employees. In addition, the company's non-employee directors are compensated with a combination of restricted stock, stock options and cash. The most significant of these plans relates to the RSUs. Grants of RSUs were first made in 2005, and vest in one-third increments over a three-year period. During 2005, 2004 and 2003, 821,250, 55,787 and 54,441 shares, respectively, of restricted stock and RSUs were granted with weighted-average grant-date fair values of $35.04, $31.82 and $25.27 per share or share unit, respectively. At December 31, 2005, 870,498 shares of restricted stock and RSUs were subject to restrictions, with 287,513 shares or share units lapsing in 2006, 304,116 lapsing in 2007, 258,869 lapsing in 2008, and the remainder lapsing in 2010.

Employee Stock Purchase Plans

Nearly all employees are eligible to participate in the company's employee stock purchase plans. For subscriptions that began prior to April 1, 2005, the employee purchase price was the lower of 85% of the closing market price on the date of subscription or 85% of the closing market price on the purchase dates, as defined by the plans. For subscriptions that began on or after April 1, 2005, the employee purchase price is 95% of the closing market price on the purchase date, as defined by the plans. The change to the employee stock purchase plan in 2005 was made as part of an overall reassessment of employee benefits and in contemplation of the new stock compensation accounting rules. At December 31, 2005, 6,804,028 authorized shares of common stock are available for purchase under these plans. The company issued 1,124,062 shares in 2005, 2,896,506 shares in 2004 and 2,906,942 shares in 2003 under these plans.

Restricted Stock

5.48

SPX CORPORATION (DEC)

Consolidated Statements of Shareholders' Equity

(In millions)	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury
Balance at December 31 , 2002	$868.0	$ 863.3	$ 478.2	$(46.1)	$(197.6)	$ (273.4)
Net income	—	—	236.0	—	—	—
Exercise of stock options and other incentive plan activity, including related tax benefit of $5.1	10.1	33.9	—	—	—	—
Net unrealized gain on qualifying cash flow hedges, net of tax of $12.3	—	—	—	—	20.2	—
Minimum pension liability adjustment, net of tax of $107.4	—	—	—	—	164.1	—
Amortization of restricted stock grant	—	—	—	5.4	—	—
Treasury stock repurchased	—	—	—	—	—	(315.4)
Translation adjustments	—	—	—	—	220.5	—
Balance at December 31, 2003	878.1	897.2	714.2	(40.7)	207.2	(588.8)
Net loss	—	—	(17.1)	—	—	—
Dividends declared ($1.00 per share)	—	—	(74.5)	—	—	—
Exercise of stock options and other incentive plan activity, including related tax benefit of $2.6	18.4	47.8	—	—	—	(1.1)
Net unrealized gain on qualifying cash flow hedges, net of tax of $11.2	—	—	—	—	13.0	—
Minimum pension liability adjustment, net of tax of $5.9	—	—	—	—	(17.2)	—
Restricted stock and restricted stock unit grants	3.4	58.4	—	(61.8)	—	—
Amortization of restricted stock and restricted stock unit grants, net of a $8.2 reduction	—	—	—	9.1	—	—
Restricted stock and restricted stock unit forfeitures	—	(14.8)	—	60.2	—	(45.4)
Treasury stock repurchased	—	—	—	—	—	(42.3)
Translation adjustments	—	—	—	—	124.5	—
Balance at December 31, 2004	899.9	988.6	622.6	(33.2)	327.5	(677.6)
Net income	—	—	1,090.0	—	—	—
Dividends declared ($1.00 per share)	—	—	(70.6)	—	—	—
Exercise of stock options and other incentive plan activity, including related tax benefit of $12.5	14.7	54.1	—	—	—	—
Net unrealized gain on qualifying cash flow hedges, net of tax of $9.9	—	—	—	—	15.6	—
Minimum pension liability adjustment, net of tax of $141.1	—	—	—	—	(225.7)	—
Restricted stock and restricted stock unit grants	4.4	55.7	—	(60.1)	—	—
Activity for cash awards provided in 2005	—	—	—	(3.1)	—	—
Amortization of restricted stock and restricted stock unit grants (includes amounts recorded to discontinued operations)	—	—	—	30.1	—	—
Restricted stock and restricted stock unit vesting, net of tax withholdings	1.8	(6.4)	—	—	—	(1.2)
Restricted stock and restricted stock unit forfeitures	—	(7.2)	—	11.0	—	(3.8)
Treasury stock repurchased	—	—	—	—	—	(624.7)
Translation adjustments, including $221.2 of translation gains recognized upon sale of discontinued operations	—	—	—	—	(291.2)	—
Balance at December 31, 2005	$920.8	$1,084.8	$1,642.0	$(55.3)	$(173.8)	$(1,307.3)

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

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Employee Compensation (In Part)

We have a stock based compensation plan, including stock option, restricted stock and restricted stock unit awards. We account for our stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, except for awards of restricted stock and restricted stock units, we do not recognize any compensation expense. We have adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123."See Note 3 regarding the issuance of SFAS No. 123 (revised 2004) "Share Based Payment" ("SFAS No. 123(R)") and the impact of such statement on the future accounting for stock-based compensation.

In December 2003, the Compensation Committee of the Board of Directors announced its intent to issue restricted stock and restricted stock units in lieu of stock options for stock-based employee compensation to eligible employees commencing with grants in the first quarter of 2004. Accordingly, under APB Opinion No. 25 these awards to employees are required to be expensed over the vesting period. Non-cash compensation expense associated with restricted stock awards was $28.3 and $9.1 in 2005 and 2004, respectively. Non-cash compensation expense in 2004 included a net credit of $8.2 relating to compensation expense previously recorded for restricted stock that was forfeited in connection with the December 2004 retirement and resignation of our then Chairman, Chief Executive Officer, and President. Stock-based compensation expense totaled $5.4 in 2003.

15 (In Part): Shareholders' Equity

Common Stock and Treasury Stock

At December 31, 2005, we had 200.0 authorized shares of common stock (par value $10.00). Common shares issued, treasury shares, and shares outstanding are summarized in the table below.

	Common Stock Issued	Treasury Stock	Shares Outstanding
Balance at December 31, 2002	86.769	(6.143)	80.626
Stock options exercised	0.502	—	0.502
Share repurchases	—	(7.317)	(7.317)
Other	0.504	—	0.504
Balance at December 31, 2003	87.775	(13.460)	74.315
Stock options exercised	1.356	—	1.356
Share repurchases	—	(1.144)	(1.144)
Restricted stock and restricted stock units	0.353	(1.143)	(0.790)
Other	0.505	—	0.505
Balance at December 31, 2004	89.989	(15.747)	74.242
Stock options exercised	1.063	—	1.063
Share repurchases	—	(13.657)	(13.657)
Restricted stock and restricted stock units	0.613	(0.109)	0.504
Other	0.411	—	0.411
Balance at December 31, 2005	92.076	(29.513)	62.563

Stock Based Compensation (In Part)

Stock Compensation Plans (In Part)

Restricted stock or restricted stock units may be granted to certain eligible employees in accordance with applicable equity compensation plan documents and agreements. Subject to participants' continued employment and other plan terms and conditions, the restrictions lapse and units vest over three years. The 2004 grants vest ratably. In December 2004, the Compensation Committee of the Board of Directors announced changes to our stock based employee compensation program. Under the announced changes, performance thresholds have been instituted for vesting of substantially all restricted stock and restricted stock units in 2005 and future years. This vesting is based on SPX shareholder return versus the S&P 500 composite index. Pursuant to the terms of the plan, the share grant will vest if the company outperforms the S&P 500 index on an annual basis. In the event the share grant does not vest in any year, the company's shareholder return versus the S&P 500 index for the cumulative periods will serve as the basis for vesting.

Restricted Stock and Restricted Stock Unit Awards

Upon vesting, the restricted stock units are converted into shares of our common stock and are free of any restrictions. In 2005, we issued 0.435 shares of restricted stock and 0.878 of restricted stock units to certain business leaders and other employees. Expense for restricted stock and restricted stock units is recognized over the vesting period in accordance with APB Opinion No. 25. Compensation expense associated with restricted stock and restricted stock unit awards totaled $28.3, $9.1 and $5.4 in 2005, 2004 and 2003, respectively. The non-cash compensation expense in 2004, was net of a credit of $8.2 relating to compensation expense previously recorded for restricted stock that was forfeited in connection with the December 2004 retirement and resignation of our then Chairman, Chief Executive Officer and President. The amount associated with the unvested portion of the restricted stock and restricted stock unit awards is recorded, net of tax, as "unearned compensation" within shareholders' equity. Additionally, 0.084 shares of restricted stock and 0.140 restricted stock units were forfeited during 2005.

Change in Incentive Compensation Plan

In July 2005, we implemented a new incentive compensation plan, which has been approved by the Compensation Committee of the Board of Directors and became effective January 1, 2005, for our executive and management teams that replaces the Economic Value Added ("EVA") plan. Incentive payments under the new plan are based generally on financial metrics such as operating profit margin and operating cash flows. In conjunction with the adoption of this new plan, the historical individual employee balances under the EVA plan were converted to restricted stock and restricted stock units, and in the case of less significant employee balances, cash. The restricted stock, restricted stock units, and cash amounts represent fixed awards that vest ratably over a three-year period, generally beginning in July 2005. The adoption of this plan did not have a significant impact on our results of operations for 2005.

Conversion of Preferred Stock

5.49

SEQUA CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

(Amounts in thousands, except per share data)	Preferred Stock	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2002	$797	$7,321	$3,727	$290,216	$374,034	$(98,778)	$(78,306)	$499,011
Net income	—	—	—	—	11,438	—	—	11,438
Foreign currency translation adjustment	—	—	—	—	—	42,239	—	42,239
Unrealized gain on cash flow hedges	—	—	—	—	—	97	—	97
Tax provision for unrealized gain on cash flow hedges	—	—	—	—	—	(34)	—	(34)
Minimum pension liability adjustment	—	—	—	—	—	72,428	—	72,428
Tax provision on minimum pension liability adjustment	—	—	—	—	—	(25,350)	—	(25,350)
Comprehensive income								100,818
Stock grants	—	—	—	(173)	—	—	499	326
Cash dividends:								
Preferred—$5.00 per share	—	—	—	—	(2,064)	—	—	(2,064)
Balance at December 31, 2003	797	7,321	3,727	290,043	383,408	(9,398)	(77,807)	598,091
Net income	—	—	—	—	19,227	—	—	19,227
Foreign currency translation adjustment	—	—	—	—	—	27,933	—	27,933
Unrealized loss on cash flow hedges	—	—	—	—	—	(402)	—	(402)
Tax benefit for unrealized loss on cash flow hedges	—	—	—	—	—	141	—	141
Minimum pension liability adjustment	—	—	—	—	—	36,492	—	36,492
Tax provision on minimum pension liability adjustment	—	—	—	—	—	(12,772)	—	(12,772)
Comprehensive income								70,619
Stock options exercised	—	89	—	3,747	—	—	(228)	3,608
Stock grants	—	—	—	(102)	—	—	505	403
Tax benefit on stock options	—	—	—	404	—	—	—	404
Cash dividends:								
Preferred—$5.00 per share	—	—	—	—	(2,064)	—	—	(2,064)
Balance at December 31, 2004	$797	$7,410	$3,727	$294,092	$400,571	$ 41,994	$(77,530)	$671,061

(continued)

(Amounts in thousands, except per share data)	Preferred Stock	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2004	$797	$7,410	$3,727	$294,092	$400,571	$ 41,994	$(77,530)	$671,061
Net income	—	—	—	—	27,323			27,323
Foreign currency translation adjustment	—	—	—	—	—	(42,493)		(42,493)
Minimum pension liability adjustment	—	—	—	—	—	13,071		13,071
Tax provision on minimum pension liability adjustment	—	—	—	—	—	(4,573)		(4,573)
Comprehensive income								(6,672)
Stock options exercised	—	88	—	3,833	—	—	(640)	3,281
Preferred Stock Conversion	(62)	—	—	(5,267)	(655)	—	5,984	—
Class B Common Stock Conversion	—	8	(8)	—	—	—	—	—
Stock grants	—	—	—	(41)	—	—	470	429
Tax benefit on stock options	—	—	—	515	—	—	—	515
Cash dividends:								
Preferred—$5.00 per share	—	—	—	—	(1,833)	—	—	(1,833)
Balance at December 31, 2005	$735	$7,506	$3,719	$293,132	$425,406	$ 7,999	$(71,716)	$666,781

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Capital Stock

Sequa's capital stock consists of Class A and Class B common stock and $5.00 cumulative convertible preferred stock. Holders of Class A common stock have one vote per share; holders of Class B common stock have ten votes per share; and preferred stockholders have one vote per share. Holders of Class B common stock are entitled to convert their shares into Class A common stock at any time on a share-for-share basis. Each share of $5.00 cumulative convertible preferred stock is convertible into 1.322 shares of Class A common stock. The preferred stock is redeemable, at the option of Sequa, at $100 per share.

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At December 31, 2005, 4,135,614 shares of Sequa Class A common stock were reserved for the conversion of preferred and Class B common stock, and for the exercise of outstanding stock options.

The following table summarizes shares held in treasury:

	2005	2004	2003
Class A common stock	119,251	207,263	212,225
Class B common stock	397,283	397,283	397,283
Preferred stock	383,990	383,990	383,990

The 61,600 shares and 75 shares of cumulative convertible preferred stock exchanged for Class A stock in June 2005 and August 2005, respectively, were retired.

Stock Dividend

5.50

COURIER CORPORATION (SEP)

Consolidated Statements of Changes in Stockholders' Equity

	Total Stockholders' Equity	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Treasury Stock
Balance, September 28, 2002	$ 95,919,000	$ 5,445,000	$ 2,246,000	$ 91,061,000	$(509,000)	$(2,324,000)
Net income	20,120,000	—	—	20,120,000	—	—
Cash dividends	(2,354,000)	—	—	(2,354,000)	—	—
Stock dividend (Note A)	—	2,643,000	(2,643,000)	—	—	—
Restricted stock grant/amortization activity, net	159,000	—	—	—	159,000	—
Other stock plan activity	1,576,000	—	1,047,000	—	—	529,000
Balance, September 27, 2003	115,420,000	8,088,000	650,000	108,827,000	(350,000)	(1,795,000)
Net income	20,540,000	—	—	20,540,000	—	—
Cash dividends	(2,794,000)	—	—	(2,794,000)	—	—
Restricted stock grant/amortization activity, net	160,000	—	200,000	—	(133,000)	93,000
Other stock plan activity	1,664,000	—	772,000	—	—	892,000
Retire treasury stock (Note A)	—	(57,000)	(753,000)	—	—	810,000
Balance, September 25, 2004	134,990,000	8,031,000	869,000	126,573,000	(483,000)	—
Net income	22,134,000	—	—	22,134,000	—	—
Cash dividends	(4,066,000)	—	—	(4,066,000)	—	—
Stock dividend (Note A)	—	4,061,000	(2,165,000)	(1,896,000)	—	—
Restricted stock grant/amortization activity, net	214,000	8,000	300,000	—	(94,000)	—
Other stock plan activity	2,662,000	213,000	2,449,000	—	—	—
Balance, September 24, 2005	$155,934,000	$12,313,000	$ 1,453,000	$142,745,000	$(577,000)	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Stock Splits

On May 27, 2005 and December 5, 2003, the Company distributed three-for-two stock splits, effected in the form of 50% stock dividends. Previously authorized but unissued shares were used to effect these dividends. Weighted average shares outstanding and per share amounts presented in the accompanying financial statements for periods prior to the stock splits have been restated to give effect to these stock splits.

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

5.51 Certain items such as unearned compensation expense related to stock issuances to employees, and employee stock ownership plans are presented as separate components of stockholders' equity. Other items such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities, and minimum pension liability adjustments are considered components of other comprehensive income. *SFAS No. 130* permits presentation of components of other comprehensive income and total comprehensive income in a statement of changes in stockholders' equity. In addition, the Standard allows disclosure of accumulated balances, by component, included in accumulated other comprehensive income in a statement of changes in stockholders' equity.

5.52 Examples of statements reporting changes in separate components of stockholders' equity, other than those classified as components of other comprehensive income, follow. See sections 2 and 4 for examples of presentation of other comprehensive income and related accumulated balances in statements of changes in stockholders' equity.

Unearned Compensation Expense

5.53

NETWORK APPLIANCE INC. (APR)

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

	Common Stock			Treasury Stock					
(In thousands)	Shares	Amount	Additional Paid-In Capital	Shares	Treasury Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, April 30, 2002	335,135	$335	$656,619	—	$ —	$ (3,777)	$207,665	$(2,366)	$ 858,476
Components of comprehensive income:									
Net income	—	—	—	—	—	—	76,472	—	76,472
Currency translation adjustment	—	—	—	—	—	—	—	964	964
Unrealized loss on derivatives	—	—	—	—	—	—		(29)	(29)
Unrealized gain on investments, net	—	—	—	—	—	—	—	1,335	1,335
Total comprehensive income								—	78,742
Issuance of common stock related to employee transactions	5,544	6	29,243	—	—	—	—	—	29,249
Issuance of milestone shares	—	—	921	—	—	—	—	—	921
Deferred stock compensation	—	—	1,171	—	—	(1,171)	—	—	—
Amortization of deferred stock compensation	—	—	—	—	—	1,973	—	—	1,973
Reversal of deferred stock compensation due to employee terminations	—	—	(1,612)	—	—	1,612	—	—	—
Stock compensation expense—nonemployee	—	—	748	—	—	—	—	—	748
Release of WebManage escrow shares	(11)	—	(1,210)	—	—	—	—	—	(1,210)
Income tax benefit from employee stock transactions	—	—	18,458	—	—	—	—	—	18,458
Balances, April 30, 2003	340,668	$341	$704,338	—	$ —	$ (1,363)	$284,137	$ (96)	$ 987,357
Components of comprehensive income:									
Net income	—	—	—	—	—	—	152,087	—	152,087
Currency translation adjustment	—	—	—	—	—	—	—	2,440	2,440
Unrealized gain on derivatives	—	—	—	—	—	—	—	341	341
Unrealized loss on investments, net	—	—	—	—	—	—	—	(2,063)	(2,063)
Total comprehensive income									152,805
Issuance of common stock related to employee transactions	11,170	11	81,537	—	—	—	—	—	81,548
Issuance of restricted stock	120	—	—	—	—	—	—	—	—
Issuance of common stock to acquire Spinnaker Networks, Inc.	12,377	12	259,666	—	—	—	—	—	259,678
Repurchase of common stock	—	—	—	(6,853)	(136,172)	—	—	—	(136,172)
Deferred stock compensation	—	—	2,725	—	—	(2,725)	—	—	—
Assumption of options in connection with Spinnaker acquisition	—	—	43,094	—	—	(25,892)			17,202
Amortization of deferred stock compensation	—	—	—	—	—	3,397	—	—	3,397
Reversal of deferred stock compensation due to employee terminations	—	—	(3,235)	—	—	3,235	—	—	—
Stock compensation expense—nonemployee	—	—	498	—	—	—	—	—	498
Income tax benefit from employee stock transactions	—	—	49,535	—	—	—	—	—	49,535
Balances, April 30, 2004	364,335	$364	$1,138,158	(6,853)	$(136,172)	$(23,348)	$436,224	$ 622	$1,415,848

(continued)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, April 30, 2004	364,335	$364	$1,138,158	(6,853)	$(136,172)	$(23,348)	$436,224	$ 622	$1,415,848
Components of comprehensive income:									
Net income	—	—	—	—	—	—	225,754	—	225,754
Currency translation adjustment	—	—	—	—	—	—	—	81	81
Unrealized gain on derivatives	—	—	—	—	—	—	—	(201)	(201)
Unrealized loss on investments, net	—	—	—	—	—	—	—	(4,552)	(4,552)
Total comprehensive income									221,082
Issuance of common stock related to employee transactions	17,111	17	181,905	—	—	—	—	—	181,922
Issuance of restricted stock	10	—	—	—	—	—	—	—	—
Spinnaker restricted stock units exercises	98	—	—	—	—	—	—	—	—
Restricted stock withheld for taxes	(37)	—	(1,122)	—	—	—	—	—	(1,122)
Repurchase of common stock	—	—	—	(7,713)	(192,903)	—	—	—	(192,903)
Repurchase of Spinnaker restricted stock units	(3)	—	—	—	—	—	—	—	—
Repurchase of restricted stock	(5)	—	—	—	—	—	—	—	—
Deferred stock compensation	—	—	1,401	—	—	(1,401)	—	—	—
Amortization of deferred stock compensation	—	—	—	—	—	7,720	—	—	7,720
Reversal of deferred stock compensation due to employee terminations	—	—	(1,247)	—	—	1,247	—	—	—
Stock compensation expense—nonemployee	—	—	428	—	—	—	—	—	428
Income tax benefit from employee stock transactions	—	—	27,829	—	—	—	—	—	27,829
Balances, April 30, 2005	381,509	$381	$1,347,352	(14,566)	$(329,075)	$(15,782)	$661,978	$(4,050)	$1,660,804

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

2 (In Part): Significant Accounting Policies

Stock-Based Compensation (In Part)

We account for stock-based compensation in accordance with the provisions of APB No. 25, "*Accounting for Stock Issued to Employees*," and comply with the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosures.*" Deferred compensation recognized under APB No. 25 is amortized ratably to expense over the vesting periods. We account for stock options issued to nonemployees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18 "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*" under the fair-value-based method.

We adopted the disclosure-only provisions of SFAS No. 123, and accordingly, no expense has been recognized for options granted to employees under the various option plans described under Note 6. We amortize deferred stock-based compensation ratably over the vesting periods of the applicable stock purchase rights, restricted stocks, and stock options, generally four years. Deferred stock compensation under APB No. 25 and pro forma net income (loss) under the provisions of SFAS No. 123 are adjusted to reflect cancellations and forfeitures due to employee terminations as they occur.

6 (In Part): Stockholders' Equity

Stock Option Plans (In Part)

In September 1995, we adopted the 1995 Stock Incentive Plan (the 1995 Plan). All outstanding options issued under a previous option plan were incorporated into the 1995 Plan upon the effectiveness of our initial public offering.

Under the 1995 Plan, the Board of Directors may grant to employees, directors, and consultants options to purchase shares of our common stock. The 1995 Plan comprises three separate equity incentive programs: (i) the Discretionary Option Program under which options may be granted to eligible individuals at a fixed price per share; (ii) the Salary Investment Option Grant Program under which the company's officers and other highly compensated employees may elect to have a portion of their base salary reduced in return for stock options and (iii) the Stock Issuance Program under which eligible persons may be issued shares of Common Stock directly. Options granted under the 1995 Plan generally vest at a rate of 25% on the first anniversary of the vesting commencement date and then ratably over the following 36 months. Options expire as determined by the Board of Directors, but not more than 10 years after the date of grant.

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In fiscal 2001, we assumed various stock option plans in connection with our Orca and WebManage acquisitions. Pursuant to the provisions of the merger agreements, outstanding shares were exchanged under certain exchange ratios in effect at the time of each merger. Options granted under these plans generally vest at a rate of 25% on the first anniversary of the vesting commencement date and then ratably over the following 36 months. Options expire as determined by the Board of Directors, but not more than 10 years after the date of grant.

In fiscal 2003, we reached a final settlement of the escrow fund arrangement under the WebManage acquisition agreement. We have determined the total amount of our losses under the settlement arrangement and 11 restricted shares were released from the escrow and delivered to Network Appliance, valued in the aggregate at $1,210 based on the fair market value of our common stock as of the date of the acquisition. Accordingly, an adjustment was made to the cost of the WebManage acquisition. The balance of the escrow shares has been distributed to former shareholders of WebManage in proportion to their share ownership in WebManage, as provided in the original merger agreement.

In fiscal 2004, under terms of the Spinnaker merger agreement we acquired Spinnaker and assumed options and restricted stock units to purchase 1,721 shares of common stock in connection with the Spinnaker 2000 Stock Plan. The Spinnaker 2000 Stock Plan has a total of 2,942 authorized shares. Outstanding options and restricted stock units were exchanged pursuant to the terms of the merger agreement. The options and restricted stock units granted under this plan generally vest at a rate of 25% on the first anniversary of the vesting commencement date and then ratably over the following 36 months. The options expire not more than 10 years from the date of grant.

Deferred Stock Compensation

Deferred stock compensation is recorded for the grant of stock awards or shares of restricted stock to employees at exercise prices deemed to be less than the fair value of our common stock on the grant date. Deferred stock compensation is also recorded for retention escrow shares withheld in accordance with the merger agreement; see Note 11. Deferred stock compensation is adjusted to reflect cancellations and forfeitures due to employee terminations as they occur. We recorded $1,401, $28,617, and $1,171 of deferred stock compensation in fiscal 2005, 2004 and 2003, respectively, primarily related to unvested options assumed and retention escrow shares withheld in the Spinnaker acquisition, restricted stock awards to certain employees, and the grant of stock options below fair value to certain highly compensated employees. The fiscal 2004 deferred stock compensation was higher due to unvested options assumed and retention escrow shares withheld in the Spinnaker acquisition totaling $25,892. We reversed $1,247, $3,235 and $1,612 of deferred compensation in fiscal 2005, 2004, and 2003, respectively, due to employee terminations. The reversals were primarily related to the forfeiture of unvested options assumed in the WebManage and Spinnaker acquisitions as a result of employee terminations.

Under terms of the 1995 Plan, highly compensated employees as defined by our management are eligible to contribute between $15 and $75 in annual salary for the rights to be granted nonqualified stock options. The exercise price discount from fair market value, which is equal to the amount of salary contributed, has been recorded as deferred stock compensation expense. The deferred stock compensation expense is amortized ratably over a one-year period. Additionally, under the 1995 Stock Issuance Program, certain eligible persons may be issued shares of common stock directly. During fiscal 2005 and 2004, 10 and 120 shares, respectively, of restricted stock awards were issued to certain employees. The exercise price discount from fair market value of these shares has been recorded as deferred stock compensation expense, which was being amortized ratably over its respective vesting periods, between three to four years. During fiscal 2005, 5 shares of restricted stock and 3 shares of Spinnaker restricted stock units were repurchased and canceled pursuant to employee terminations.

Under terms of the acquisition agreement with Orca, we released shares of common stock to former Orca shareholders upon Orca's meeting certain performance criteria. The fair market values of these shares were measured on the date the performance criteria were met and were recognized as stock compensation. During fiscal 2003, we released an additional 99 shares of common stock, valued in the aggregate at $921. There are no additional performance milestones remaining.

We recorded $428, $498, and $748 in compensation expense in fiscal 2005, 2004, and 2003, respectively, for the fair value of options granted to a member of the Board of Directors in recognition for services performed outside of the normal capacity of a board member. During fiscal 2002, 100 common shares under the 1995 Plan were granted at an exercise price of $15.32 per share, the fair market value per share on the grant date. The option has a term of 10 years measured from the grant date, subject to earlier termination following his cessation of board service, and will vest in a series of 48 successive equal monthly installments upon his completion of each month of board service over the 48-month period measured from the grant date.

We recorded $7,720, $3,397 and $1,973 in compensation expense for fiscal 2005, 2004, and 2003, respectively, primarily related to the amortization of deferred stock compensation from unvested options assumed in the WebManage and Spinnaker acquisitions, the retention escrow shares relative to Spinnaker, the grant of stock options to certain highly compensated employees below fair value at the date of grant and the award of restricted stock to certain employees. Based on deferred stock compensation recorded at April 30, 2005, estimated future deferred stock compensation amortization for fiscal 2006, 2007, and 2008 are expected to be $6,765, $5,292, and $3,727 respectively, and none thereafter.

5.54

THE SCOTTS MIRACLE-GRO COMPANY (SEP)

Consolidated Statements of Shareholders' Equity

	Common Stock			Capital in Excess of		Treasury Stock		Accumulated Other	
(In millions)	Shares	Amount	Deferred Compensation	Stated Value	Retained Earnings	Shares	Amount	Comprehensive Income/(Loss)	Total
Balance, September 30, 2002	62.7	$0.3		$398.6	$294.8	(2.4)	$(41.8)	$(58.0)	$ 593.9
Net Income					103.8				103.8
Foreign currency translation								(2.8)	(2.8)
Unrecognized gain on derivatives, net of tax								0.8	0.8
Minimum pension liability, net of tax								(0.8)	(0.8)
Comprehensive income									101.0
Stock-based compensation awarded			$(13.1)	13.1					
Stock-based compensation expense			4.8						4.8
Issuance of common shares	1.4			(13.3)					(13.3)
Treasury stock activity						2.4	41.8		41.8
Balance, September 30, 2003	64.1	0.3	(8.3)	398.4	398.6	—	—	(60.8)	728.2
Net Income					100.9				100.9
Foreign currency translation								(0.9)	(0.9)
Unrecognized gain on derivatives, net of tax								1.0	1.0
Minimum pension liability, net of tax								2.9	2.9
Comprehensive income									103.9
Stock-based compensation awarded			(12.2)	12.2					
Stock-based compensation forfeitures			1.2	(1.2)					
Stock-based compensation expense			8.9						8.9
Issuance of common shares	1.6			33.6					33.6
Balance, September 30, 2004	65.7	0.3	(10.4)	443.0	499.5	—	—	(57.8)	874.6
Net Income					100.6				100.6
Foreign currency translation								4.1	4.1
Unrecognized gain on derivatives, net of tax								2.1	2.1
Minimum pension liability, net of tax								(5.0)	(5.0)
Comprehensive income									101.8
Stock-based compensation awarded			(15.1)	15.1					
Stock-based compensation forfeitures			2.6	(2.6)					
Stock-based compensation expense			10.7						10.7
Cash dividends paid (12.5 cents per share)					(8.6)				(8.6)
Issuance of common shares (net of tax)	2.1			47.7					47.7
Balance, September 30, 2005	67.8	$0.3	$(12.2)	$503.2	$591.5	—	$ —	$(56.6)	$1,026.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation Awards

In fiscal 2003, the Company began expensing prospective grants of employee stock-based compensation awards in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". The fair value of awards is expensed ratably over the vesting period, generally three years, except for grants to members of the Board of Directors that have a shorter vesting period.

In December 2004, the Financial Accounting Standards Board replaced SFAS 123 with SFAS 123(R), "Share-Based Payment," that the Company is required to adopt effective October 1, 2005. The Company is already in substantial compliance with SFAS 123(R) as the standard closely parallels SFAS 123. The adoption of SFAS 123(R) is not expected to have a significant effect on the Company's results of operations.

The Company changed its fair value option pricing model from the Black-Scholes model to a binomial model for all options granted on or after October 1, 2004. The fair value of options granted prior to October 1, 2004, was determined using the Black-Scholes model. The Company believes the binomial model considers characteristics of fair value option pricing that are not available under the Black-Scholes model. Both the Black-Scholes model and the binomial model take into account a number of variables such as volatility, risk-free interest rate, contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. However, the binomial model uses a more refined approach in applying those variables thereby improving the quality of the estimate of fair value.

Note 10 (In Part): Shareholders' Equity

The Company grants share-based awards annually to officers, other key employees, and non-employee directors. Historically, these awards primarily include stock options with exercise prices equal to the market price of the underlying common shares on the date of grant with a term of 10 years. In recent years, the Company also has begun to grant awards of restricted stock. These share-based awards have been made under plans approved by the shareholders in 1992, 1996, and 2003. Generally, in respect of grants to employees, a three-year cliff vesting schedule is used for all share-based awards unless decided otherwise by the Compensation and Organization Committee of the Board of Directors. Grants to non-employee directors typically vest in one year or less. A maximum of 18 million common shares may be delivered for issuance under these plans. At September 30, 2005, approximately 1.1 million common shares are not subject to outstanding awards and are available to underlie the grant of new share-based awards. Subsequent to September 30, 2005, the Company granted a total of 917,300 share-based awards to key employees. These awards have an estimated fair value of $17.0 million as of the date of grant.

The following is a recap of the share-based awards granted over the last three years:

	2005	2004	2003
Key employees			
Options	965,600	118,000	809,000
Stock appreciation rights		775,500	478,000
Restricted stock	101,000	—	
Board of directors—options	147,000	152,500	126,000
Total share-based awards	1,213,600	1,046,000	1,413,000
Fair value at grant dates (in millions)	$ 15.1	$ 11.0	$ 13.1

The exercise price for option awards and the stated price for stock appreciation rights awards were determined by the closing price of the Company's common shares on the date of grant. The related compensation expense recorded in fiscal 2005, fiscal 2004, and fiscal 2003 was $10.7 million, $7.8 million, and $4.8 million, respectively. Stock appreciation rights result in less dilution than option awards as the SAR holder receives a net share settlement upon exercise. Tax benefits allocated to capital in excess of stated value relating to the exercise of stock options amounted to $15.5 million in fiscal 2005. The Company also has a phantom option plan for certain management employees which is payable in cash based on the increase in the Company's share price over a three-year vesting period.

Stock Options/SARs

Aggregate option and stock appreciation right award activity consists of the following (options/SARs in millions):

	2005		2004		2003	
	No. of Options/SARs	WTD. Avg. Exercise Price	No. of Options/SARs	WTD. Avg. Exercise Price	No. of Options/SARs	WTD. Avg. Exercise Price
Beginning balance	7.6	$19.87	8.2	$17.50	8.4	$15.63
Awards granted	1.2	$34.56	1.2	$29.41	1.4	$24.54
Awards exercised	(2.1)	$15.99	(1.6)	$14.67	(1.4)	$13.57
Awards forfeited	(0.3)	$28.06	(0.2)	$24.28	(0.2)	$18.22
Ending balance	6.4	$23.09	7.6	$19.87	8.2	$17.50
Exercisable	3.4	$17.89	4.6	$16.97	4.8	$15.66

The following summarizes certain information pertaining to option and stock appreciation right awards outstanding and exercisable at September 30, 2005 (options/SARs in millions):

	Awards Outstanding			Awards Exercisable	
Range of Exercise Price	No. of Options/SARs	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price	No. of Options/SARs	Exercise Price
$8.50–$14.72	0.5	1.54	$10.90	0.5	$10.90
$15.00–$17.38	1.0	3.87	15.64	0.9	15.64
$17.50–$19.98	1.6	4.86	18.92	1.6	18.92
$20.07–$25.62	1.3	7.12	24.42	0.2	24.05
$29.08–$31.56	1.0	8.16	29.42	0.2	34.17
$32.58–$40.53	1.0	9.22	34.55	—	—
	6.4		$23.09	3.4	$17.89

The fair value of each award granted has been estimated on the grant date using the Binomial model for fiscal 2005 and the Black-Scholes option-pricing model for fiscal 2004 and fiscal 2003. The weighted average assumptions for those granted in fiscal 2005, fiscal 2004 and fiscal 2003 are as follows:

	2005	2004	2003
Market price volatility	23.9%	24.3%	30.1%
Risk-free interest rates	3.7%	3.3%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life of options/SARs	6.15	6.20	7.00
Estimated weighted-average fair value per share of options/SARs	$10.57	$8.86	$9.68

Restricted Stock

Aggregate restricted stock award activity is as follows:

	No. of Shares	Fair Value at Date of Grant
Beginning balance October 1, 2003	—	$ —
Granted	30,000	$ 0.9
Fully vested	—	—
Forfeited	—	—
Balance September 30, 2004	30,000	$ 0.9
Granted	101,000	3.3
Fully vested	(1,600)	(0.1)
Forfeited	(15,000)	(0.5)
Balance September 30, 2005	114,400	$ 3.6

The fair value of all share-based awards has been recorded as unearned compensation and is shown as a separate component of shareholders' equity. Unearned compensation is amortized over the vesting period for the particular grant, and is recognized as a component of "Selling, general and administrative" expenses within the Consolidated Statements of Operations.

Employee Stock Ownership Plan

5.55

THE SHERWIN-WILLIAMS COMPANY (DEC)

Statements of Consolidated Shareholders' Equity and Comprehensive Income

(Thousands of dollars except per common share data)	Common Stock	Preferred Stock	Unearned ESOP Compensation	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Income (Loss)	Total
Balance at January 1, 2003	$209,836	$ 41,806	$ (41,806)	$265,635	$2,157,485	$(1,029,894)	$(261,172)	$1,341,890
Comprehensive income:								
Net income					332,058			332,058
Foreign currency translation							31,822	31,822
Minimum pension liability, net of taxes of ($35)							82	82
Comprehensive income								363,962
Treasury stock purchased						(238,148)		(238,148)
Issuance of preferred stock to pre-fund ESOP		350,000	(350,000)					
Redemption of preferred stock		(107,149)	107,149					
Income tax effect of ESOP				24,665				24,665
Stock issued (tendered) for exercise of options	2,172			52,239		(743)		53,668
Stock tendered in connection with restricted stock grants						(2,132)		(2,132)
Restricted stock grants (net activity)	401			5,240				5,641
Cash dividends—$.62 per common share					(90,689)			(90,689)
Balance at December 31, 2003	212,409	284,657	(284,657)	347,779	2,398,854	(1,270,917)	(229,268)	1,458,857
Comprehensive income:								
Net income					393,254			393,254
Foreign currency translation							17,782	17,782
Minimum pension liability, net of taxes of ($597)							1,394	1,394
Unrealized gain on marketable equity securities, net of taxes of ($328)							510	510
Comprehensive income								412,940
Treasury stock purchased				(9,565)		(257,793)		(267,358)
Redemption of preferred stock		(112,838)	112,838					
Income tax effect of ESOP				19,304				19,304
Stock issued (tendered) for exercise of options	3,702			105,719		(645)		108,776
Restricted stock grants (net activity)	285			11,357				11,642
Cash dividends—$.68 per common share					(96,915)			(96,915)
Balance at December 31, 2004	$216,396	$ 171,819	$(171,819)	$474,594	$2,695,193	$(1,529,355)	$(209,582)	$1,647,246

(continued)

(Thousands of dollars except per common share data)	Common Stock	Preferred Stock	Unearned ESOP Compensation	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Income (Loss)	Total
Balance at December 31, 2004	$216,396	$ 171,819	$(171,819)	$474,594	$2,695,193	$(1,529,355)	$(209,582)	$1,647,246
Comprehensive income:								
Net income					463,258			463,258
Foreign currency translation							14,255	14,255
Minimum pension liabilities, net of taxes of $11,980							(18,508)	(18,508)
Unrealized gain on marketable equity securities and derivative instruments used in cash flow hedges, net of taxes of ($190)							295	295
Comprehensive income								459,300
Treasury stock purchased				(296)		(356,197)		(356,493)
Redemption of preferred stock		(137,117)	137,117					
Income tax effect of ESOP				14,054				14,054
Stock issued (tendered) for exercise of options	2,345			73,512		(4,488)		71,369
Restricted stock grants (net activity)	194			8,530				8,724
Cash dividends—$.82 per common share					(113,588)			(113,588)
Balance at December 31, 2005	$218,935	$ 34,702	$ (34,702)	$570,394	$3,044,863	$(1,890,040)	$(213,540)	$1,730,612

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars unless otherwise indicated)

Note 1 (In Part): Significant Accounting Policies

Employee Stock Purchase and Savings Plan and Preferred Stock

The Company accounts for the employee stock purchase and savings plan (ESOP) in accordance with Statement of Position (SOP) No. 93-6, "Employers' Accounting for Employee Stock Ownership Plans." The Company recognized compensation expense for amounts contributed to the ESOP and the ESOP used dividends on unallocated preferred shares to service debt. Unallocated preferred shares held by the ESOP were not considered outstanding in calculating earnings per share of the Company. See Note 10.

Note 10. Stock Purchase Plan and Preferred Stock

As of December 31, 2005, 20,287 employees contributed to the Company's ESOP, a voluntary defined contribution plan available to all eligible salaried employees. Participants are allowed to contribute, on a pretax basis only, up to the lesser of 20 percent of their annual compensation or the maximum dollar amount allowed under the Internal Revenue Code. Such participant contributions may be invested in a variety of mutual funds or a Company common stock fund. Effective January 1, 2004, the ESOP was amended to permit participants to diversify 100 percent of employee contributions previously allocated to the Company common stock fund into a variety of mutual funds. The Company matches current contributions up to 6 percent of annual compensation. Company matching contributions are required to be invested in the Company common stock fund.

The Company made contributions to the ESOP on behalf of participating employees, representing amounts authorized by employees to be withheld from their earnings on a pre-tax basis, of $58,579, $46,524 and $40,662 in 2005, 2004 and 2003, respectively. The Company's matching contributions to the ESOP charged to operations were $42,353, $35,573 and $31,331 for 2005, 2004 and 2003, respectively.

At December 31, 2005, there were 22,775,943 shares of the Company's common stock being held by the ESOP, representing 16.9 percent of the total number of voting shares outstanding. Shares of Company common stock credited to each member's account under the ESOP are voted by the trustee under instructions from each individual plan member. Shares for which no instructions are received, along with any unallocated shares held in the ESOP, are voted by the trustee in the same proportion as those for which instructions are received.

On August 27, 2003, the Company issued 350,000 shares of convertible participating serial preferred stock, no par value with cumulative quarterly dividends of ten dollars per share (Preferred stock) for $350,000 to the ESOP. The ESOP financed the acquisition of the Preferred stock by borrowing $350,000 from the Company at the rate of 4.5 percent per annum. This borrowing is payable over ten years in equal quarterly installments. Each share of Preferred stock-is entitled to one vote upon all matters presented to the Company's shareholders, and the holder of the Preferred stock and the holders of the common stock generally vote together as one class. The Preferred stock is held in an unallocated account by the ESOP until compensation expense related to the Company's contributions is earned at which time contributions will be credited to the members' accounts. The Preferred stock is redeemable and convertible into the Company's common stock at the option of the ESOP based on the relative fair value of the Preferred stock and common stock at time of conversion. In the event the Preferred stock is redeemed, the Company has the option to pay the redemption amount in cash, common stock or any combination thereof. At December 31, 2005, 2004 and 2003, there were no allocated or committed-to-be-released shares of Preferred stock outstanding. The ESOP redeemed 137,117 shares, 112,838 shares and 65,343 shares of the 2003 issuance of Preferred stock for cash in 2005, 2004 and 2003, respectively. In 2003, the ESOP redeemed for cash the remaining 41,806 shares of a 2001 issuance of Preferred stock to the ESOP.

Stock Loan Program

5.56

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Deferred Stock Compensation	Deferred Compensation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 28, 2002	$17,742	$82,139	$1,804	$ 0	$164,221	$ 299	$(1,401)	$264,804
Comprehensive earnings:								
Net earnings					40,119			
Foreign currency translation adjustment						1,097		
Total comprehensive earnings								41,216
Cash dividends—$.095 per share					(1,689)			(1,689)
Issuance of 89,753 shares under employee stock plans	90	1,191						1,281
Issuance of 3,997 shares under stock grant programs	4	83						87
Issuance of 43,834 shares under deferred compensation plans	44	700	(129)	(615)				0
Repurchase of 123,234 shares	(123)				(1,906)			(2,029)
Tax benefits from non-qualified stock options exercised		246						246
Accrued expense under deferred compensation plans			772					772
Issuance of 57,232 shares in exchange for employee stock notes receivable	57	830					(887)	0
Payments received on employee stock notes receivable							416	416
Balance at December 27, 2003	$17,814	$85,189	$2,447	$ (615)	$200,745	$1,396	$(1,872)	$305,104

(continued)

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Deferred Stock Compensation	Deferred Compensation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 27, 2003	$17,814	$85,189	$2,447	$ (615)	$200,745	$1,396	$(1,872)	$305,104
Comprehensive earnings:								
Net earnings					48,603			
Foreign currency translation adjustment						129		
Total comprehensive earnings								48,732
Cash dividends—$.100 per share					(1,796)			(1,796)
Issuance of 170,677 shares under employee stock plans	170	2,845						3,015
Issuance of 4,036 shares under stock grant programs	4	127						131
Issuance of 22,528 shares under deferred compensation plans	23	693		(716)				0
Received 4,695 shares for the exercise of stock options	(5)	(150)						(155)
Received 4,050 shares to payoff notes receivable	(4)				(125)			(129)
Tax benefits from non-qualified stock options exercised		559						559
Accrued expense under deferred compensation plans			976					976
Issuance of 195 shares in exchange for employee stock notes receivable		6					(6)	0
Payments received on employee stock notes receivable							332	332
Balance at December 25, 2004	$18,002	$89,269	$3,423	$(1,331)	$247,427	$1,525	$(1,546)	$356,769
Comprehensive earnings:								
Net earnings					67,373			
Foreign currency translation adjustment						883		
Total comprehensive earnings								68,256
Cash dividends—$.105 per share					(1,922)			(1,922)
Issuance of 411,245 shares under employee stock plans	411	4,781						5,192
Issuance of 3,713 shares under stock grant programs	4	158						162
Issuance of 33,074 shares under deferred compensation plans	33	939	(216)	(756)				0
Received 49,244 shares for the exercise of stock options	(49)	(1,856)						(1,905)
Tax benefits from non-qualified stock options exercised		4,021						4,021
Accrued expense under deferred compensation plans			1,005	(30)				975
Issuance of 1,605 shares in exchange for employee stock notes receivable	2	60					(62)	0
Payments received on employee stock notes receivable							304	304
Balance at December 31, 2005	$18,403	$97,372	$4,212	$(2,117)	$312,878	$2,408	$(1,304)	$431,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Employees' Stock Notes Receivable

Notes were obtained by us from certain officers for the purchase of our common stock. Interest on all of the outstanding notes range from fixed rates of five to eleven percent per annum and a variable rate of the prime rate less 10% (minimum 6%, maximum 12%). Each loan is evidenced by a promissory note from the participating officer, and is secured by all of the shares purchased with the loan proceeds. As of August 1, 2002, we no longer issue notes to executive officers under this program.

On March 31, 2005, we sold 1,605 shares of common stock to various employees in exchange for notes receivable totaling approximately $62,000. Interest on the note is fixed at 4.5% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

On March 31, 2004, we sold 195 shares of common stock to an employee in exchange for a note receivable totaling approximately $6,000. Interest on the note is fixed at 4.8% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

On April 30, 2003, we sold 57,232 shares of common stock to employees in exchange for notes receivable totaling approximately $887,000. Interest on these notes is fixed at 4.8% per annum. Each loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

All loans are recourse loans. On December 31, 2005, payments on the notes are due as follows (in thousands):

2006	$ 71
2007	79
2008	97
2009	234
2010	252
Thereafter	571
	$1,304

Warrants

5.57

WASHINGTON GROUP INTERNATIONAL, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Shares of Common Stock Issued	Shares of Common Stock Treasury	Common Stock	Capital in Excess of Par Value	Stock Purchase Warrants	Retained Earnings	Treasury Stock	Unearned Compensation Restricted Stock	Accumulated Other Comprehensive Income (Loss)
January 3, 2003	25,000	—	$250	$521,103	$ 28,647	$ 37,701	$ —	$ —	$ 9,049
Net income						42,063			
Exercise of stock options	46			1,207					
Stock-based compensation				6,174					
Foreign currency translation adjustments, net									15,844
Minimum pension liability adjustment and other									(1,154)
January 2, 2004	25,046	—	250	528,484	28,647	79,764	—	—	23,739
Net income						51,137			
Exercise of stock options and warrants	428		5	12,280	(331)				
Stock-based compensation				1,164					
Foreign currency translation adjustments, net									9,348
Minimum pension liability adjustment and other									(991)
Other		(26)		586	(149)		(1,012)		
December 31, 2004	25,474	(26)	255	542,514	28,167	130,901	(1,012)	—	32,096
Net income						58,366			
Issuance of restricted stock, net of forfeitures	134		1	5,844			(4)	(5,841)	
Stock-based compensation	4			651				1,608	
Exercise of stock options and warrants	1,258		13	39,472	(1,415)				
Purchase of warrants				(62,113)	(11,616)				
Foreign currency translation adjustments, net									(15,568)
Minimum pension liability adjustment and other									(603)
Other		(6)		92	(32)	(268)	(291)		
December 30, 2005	26,870	(32)	$269	$526,460	$ 15,104	$188,999	$(1,307)	$(4,233)	$ 15,925

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

14 (In Part): Capital Stock, Stock Purchase Warrants and Stock Compensation Plans

Stock Purchase Warrants

In connection with our Plan of Reorganization, warrants to purchase shares of common stock were issued to unsecured creditors in three tranches. The following table summarizes the warrant activity during the years ended January 2, 2004, December 31, 2004 and December 30, 2005, and through the expiration date of January 25, 2006.

Stock Purchase Warrants Outstanding

	Tranche A	Tranche B	Tranche C	Total
Issued in January 25, 2002 reorganization	3,086	3,527	1,907	8,520
Exercise price per share	$ 28.50	$ 31.74	$33.51	
Year ended December 31, 2004				
Exercised	(35)	(41)	(22)	(98)
Returned as part of legal settlement	(16)	(18)	(10)	(44)
Outstanding at December 31, 2004	3,035	3,468	1,875	8,378
Year ended December 30, 2005				
Exercised	(217)	(159)	(45)	(421)
Purchased	(1,217)	(1,529)	(709)	(3,455)
Returned as part of legal settlement	(4)	(4)	(2)	(10)
Outstanding at December 30, 2005	1,597	1,776	1,119	4,492
Subsequent to December 30, 2005				
Exercised	(872)	(805)	(585)	(2,262)
Purchased	(656)	(890)	(492)	(2,038)
Expired	(69)	(81)	(42)	(192)
Outstanding at January 25, 2006	—	—	—	—

During 2005, our board of directors authorized a stock/warrant buy back program up to $125,000 under which we purchased and cancelled 3,455 warrants at a cost of $73,606. As reflected above, subsequent to December 30, 2005, we purchased an additional 2,038 warrants at a cost of $34,932; 2,262 warrants were exercised at a total exercise price of $70,027; and the remaining 192 warrants expired on January 25, 2006. Also under the common stock/warrant buy back program, we have purchased 245 shares of common stock for $14,319 subsequent to December 30, 2005.

Section 6: Statement of Cash Flows

GENERAL

6.01 Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*, requires enterprises to present a Statement of Cash Flows which classifies cash receipts and payments by operating, investing, and financing activities.

6.02 This section reviews the format and content of the Statement of Cash Flows.

PRESENTATION IN ANNUAL REPORT

6.03 Table 6-1 shows where in relation to other financial statements a Statement of Cash Flows is presented in an annual report. As shown in Table 6-1, a Statement of Cash Flows is usually presented as the last financial statement or after the income statement and balance sheet but before the statement of changes in stockholders' equity.

6.04

TABLE 6-1: PRESENTATION IN ANNUAL REPORT

	2005	2004	2003	2002
Final statement	305	301	299	294
Follows income statement and balance sheet	278	279	274	280
Between income statement and balance sheet	16	19	26	26
First statement	1	1	1	—
Total Companies	**600**	**600**	**600**	**600**

CASH FLOWS FROM OPERATING ACTIVITIES

6.05 Paragraphs 21–24 of *SFAS No. 95* define those transactions and events that constitute operating cash receipts and payments. *SFAS No. 95* recommends that the direct method, as defined in paragraph 27, be used to report net cash flow from operating activities. Most of the survey companies used the indirect method (reconciling net income to net cash flow from operating activities) to report net cash flow from operating activities. Regardless of whether the direct or indirect method is used, paragraph 29 of *SFAS No. 95* requires that a reconciliation of net income to net cash flow from operating activities be presented and that interest and income tax payments be disclosed.

6.06 Table 6-2 shows the methods used to report cash flows from operating activities. Companies using the direct method usually present the reconciliation of net income to net cash flow from operating activities as a schedule at the bottom of the Statement of Cash Flows or on the page adjacent to the Statement. Companies using the indirect method usually present the reconciliation within the Statement of Cash Flows.

6.07 Paragraph 29 of *SFAS No. 95* states that the reconciliation of net income to net cash flow from operating activities shall separately report all major classes of reconciling items. For example, major classes of deferrals of past operating cash receipts and payments, and accruals of expected future operating cash receipts and payments, including at a minimum changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities, shall be separately reported. Table 6-3 lists the major types of items used by the survey companies to reconcile net income to net cash flow from operating activities. Besides changes in trade receivables, trade payables and inventory, depreciation and amortization expense is the most frequently presented reconciling item.

6.08 Table 6-4 shows where in the financial statements interest and income tax payments are disclosed. Those survey companies disclosing the amount of interest payments in the notes to financial statements did so usually in a note discussing debt or in a note discussing details about the Statement of Cash Flows. Those survey companies disclosing the amount of income tax payments in the notes to financial statements did so usually in a note discussing income taxes or in a note discussing details about the Statement of Cash Flows.

6.09 Examples of reporting cash flows from operating activities and related interest and income tax payment disclosures follow.

6.10

TABLE 6-2: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	2005	2004	2003	2002
Indirect method	592	592	593	593
Direct method	8	8	7	7
Total Companies	**600**	**600**	**600**	**600**

6.11

TABLE 6-3: CASH FLOWS FROM OPERATING ACTIVITIES—RECONCILING ITEMS

	2005	2004	2003	2002
Income Statement Items				
Depreciation and/or amortization	597	596	600	600
Employee related costs	276	222	190	182
Gain or loss on sale of property	225	218	203	213
Gain or loss on sale of assets other than property	182	169	183	163
Equity in investee's earnings	170	153	154	142
Intangible asset amortization	147	144	161	143
Provision for bad debt	140	154	142	144
Restructuring	113	126	146	140
Changes in Operating Assets and Liabilities				
Accounts receivable	552	555	548	527
Inventories	497	500	492	480
Accounts receivable combined with inventories and/or other items	56	44	60	79
Accounts payable	335	351	342	300
Accounts payable combined with other items	241	227	234	270
Income taxes payable	258	241	230	233
Employee related liabilities	145	119	109	101

6.12

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	2005	2004	2003	2002
Interest Payments				
Notes to financial statements	296	306	310	312
Bottom of Statements of Cash Flows	279	273	264	259
Within Statement of Cash Flows	8	8	9	8
Amount not disclosed	17	13	17	21
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	299	310	310	312
Bottom of Statement of Cash Flows	288	278	271	262
Within Statement of Cash Flows	9	9	12	9
Amount not disclosed	4	3	7	17
Total Companies	**600**	**600**	**600**	**600**

DIRECT METHOD

6.13

GOLDEN ENTERPRISES, INC. (MAY)

	2005	2004	2003
Cash flows from operating activities			
Cash received from customers	$102,944,666	$ 97,937,596	$ 98,174,808
Interest income	150,685	154,944	161,735
Rental income	32,471	31,948	26,660
Other operating cash payments	337,706	311,721	317,901
Cash paid to suppliers & employees for cost of goods sold	(53,551,622)	(49,827,013)	(48,092,338)
Cash paid for suppliers & employees for selling, general & administrative	(47,233,583)	(45,894,592)	(46,369,119)
Income taxes (paid)	3,902	430,216	626,349
Interest expense	(255,132)	(219,608)	(268,489)
Net cash provided by operating activities	2,429,093	2,925,212	4,577,507
Cash flows from investing activities			
Purchase of property, plant and equipment	(2,700,674)	(973,076)	(851,111)
Proceeds from sale of property, plant and equipment	139,644	155,288	399,690
Collection of notes receivable	45,760	42,254	119,636
Net cash used in investing activities	(2,515,270)	(775,534)	(331,785)
Cash flows from financing activities			
Debt proceeds	16,952,546	10,304,286	11,543,824
Debt repayments	(15,725,922)	(11,727,633)	(13,121,345)
Increase (decrease) in checks outstanding in excess of bank balances	199,619	136,426	535,782
Purchases of treasury shares	(52,992)	(91,425)	—
Cash dividends paid	(1,481,065)	(1,484,470)	(2,228,128)
Net cash used in financing activities	(107,814)	(2,862,816)	(3,269,867)
Net increase (decrease) in cash and cash equivalents	(193,991)	(713,138)	975,855
Cash and cash equivalents at beginning of year	565,195	1,278,333	302,478
Cash and cash equivalents at end of year	$ 371,204	$ 565,195	$ 1,278,333
Cash flows from operating activities			
Net (loss) income	$ (14,924)	$ (45,846)	$ (927,765)
Adjustment to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	2,267,718	2,346,880	2,490,329
Deferred income taxes	172,472	(30,251)	1,433
Gain on sale of property and equipment	(107,382)	(13,861)	(304,221)
Change in receivables—net	(199,313)	354,103	1,570,347
Change in inventories	(267,018)	(397,854)	1,443,303
Change in prepaid expenses	(143,805)	588,178	783,358
Change in cash surrender value of insurance	67,209	114,172	22,597
Change in other assets	(104,178)	(93,585)	(19,214)
Change in accounts payable	453,156	115,945	(488,795)
Change in accrued expenses	366,928	45,350	60,940
Change in salary continuation plan	(61,770)	(58,019)	(54,805)
Net cash provided by operating activities	$ 2,429,093	$ 2,925,212	$ 4,577,507

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Change in Cash Flow Presentation

During the year ended June 3, 2005, the Company changed its method of presenting the statement of cash flows for operating activities from the indirect method (which adjusts net income to remove the effects of noncash operating transactions) to the direct method (which shows principal components of operating cash receipts and payments). This change has been applied retroactively to the 2004 and 2003 statement of cash flows.

6.14

TECH DATA CORPORATION (JAN)

(In thousands)	2005	2004	2003
Cash flows from operating activities			
Cash received from customers	$ 19,745,283	$ 17,390,674	$ 15,897,728
Cash paid to suppliers and employees	(19,571,824)	(17,027,162)	(15,685,447)
Interest paid	(18,837)	(17,045)	(25,421)
Income taxes paid	(47,677)	(43,233)	(61,811)
Net cash provided by operating activities	106,945	303,234	125,049
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired	—	(203,010)	(1,125)
Disposition of subsidiaries, net of cash sold	—	—	(2,289)
Proceeds from sale of property and equipment	5,130	4,484	—
Expenditures for property and equipment	(25,876)	(31,278)	(26,276)
Software development costs	(17,899)	(21,714)	(32,862)
Net cash used in investing activities	(38,645)	(251,518)	(62,552)
Cash flows from financing activities			
Proceeds from the issuance of common stock	32,733	28,823	28,587
Net borrowings (repayments) on revolving credit loans	(11,319)	(138,039)	91,306
Principal payments on long-term debt	(9,214)	(1,492)	(301,227)
Net cash provided by (used in) financing activities	12,200	(110,708)	(181,334)
Effect of exchange rate changes on cash	5,755	10,602	18,101
Net increase (decrease) in cash and cash equivalents	86,255	(48,390)	(100,736)
Cash and cash equivalents at beginning of year	108,801	157,191	257,927
Cash and cash equivalents at end of year	$ 195,056	$ 108,801	$ 157,191
Reconciliation of net income (loss) to net cash provided by operating activities			
Net income (loss)	$ 162,460	$ 104,147	$ (199,818)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	55,472	55,084	49,849
Provision for losses on accounts receivable	13,268	29,214	31,243
Non-cash special charges	—	—	328,872
Loss on disposition of subsidiaries	—	—	5,745
Deferred income taxes	(3,616)	7,369	17,453
Changes in operating assets and liabilities, net of effects of acquisitions			
Accounts receivable	(44,305)	(15,699)	159,256
Inventories	(119,999)	(140,203)	26,881
Prepaid and other assets	(32,193)	14,713	(18,256)
Accounts payable	55,849	300,350	(239,059)
Accrued expenses and other liabilities	20,009	(51,741)	(37,117)
Total adjustments	(55,515)	199,087	324,867
Net cash provided by operating activities	$ 106,945	$ 303,234	$ 125,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Statement of Cash Flows

Short-term investments which have an original maturity of ninety days or less are considered cash equivalents.

INDIRECT/RECONCILIATION METHOD

6.15

CATERPILLAR INC. (DEC)

(Millions of dollars)	2005	2004	2003
Cash flow from operating activities			
Profit	$ 2,854	$ 2,035	$ 1,099
Adjustments for non-cash items			
Depreciation and amortization	1,477	1,397	1,347
Other	(20)	(113)	(69)
Changes in assets and liabilities			
Receivables—trade and other (see non-cash item below)	(908)	(7,616)	(8,115)
Inventories	(568)	(1,391)	(286)
Accounts payable and accrued expenses	532	1,457	542
Other assets—net	(866)	337	(277)
Other liabilities—net	612	(97)	148
Net cash provided by (used for) operating activities	3,113	(3,991)	(5,611)
Cash flow from investing activities			
Capital expenditures—excluding equipment leased to others	(1,201)	(926)	(682)
Expenditures for equipment leased to others	(1,214)	(1,188)	(1,083)
Proceeds from disposals of property, plant and equipment	637	486	761
Additions to finance receivables	(10,334)	(8,930)	(6,868)
Collections of finance receivables	7,057	6,216	5,251
Proceeds from sale of finance receivables	900	700	661
Collections of retained interests in securitized trade receivables	—	5,722	7,129
Investments and acquisitions (net of cash acquired)	(13)	(290)	(268)
Proceeds from sale of partnership investment	—	290	—
Proceeds from release of security deposit	530	—	—
Proceeds from sale of available-for-sale securities	257	408	329
Investments in available-for-sale securities	(338)	(609)	(425)
Other—net	194	198	79
Net cash provided by (used for) investing activities	(3,525)	2,077	4,884
Cash flow from financing activities			
Dividends paid	(618)	(534)	(491)
Common stock issued, including treasury shares reissued	482	317	157
Treasury shares purchased	(1,684)	(539)	(405)
Proceeds from debt issued (original maturities greater than three months)			
Machinery and engines	574	55	164
Financial products	14,000	10,435	11,825
Payments on debt (original maturities greater than three months)			
Machinery and engines	(654)	(78)	(499)
Financial products	(10,966)	(8,612)	(9,562)
Short-term borrowings (original maturities three months or less)—net	19	830	(444)
Net cash provided by financing activities	1,153	1,874	745
Effect of exchange rate changes on cash	(78)	143	15
Increase in cash and short-term investments	663	103	33
Cash and short-term investments at beginning of period	445	342	309
Cash and short-term investments at end of period	$ 1,108	$ 445	$ 342

All short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, are considered to be cash equivalents.

Non-cash activities:

Trade receivables of $6,786 million and $7,534 million were exchanged for retained interests in securitized trade receivables in 2004 and 2003, respectively.

In 2005, $116 million of 9.375% debentures due in 2021 and $117 million of 8.00% debentures due in 2023 were exchanged for $307 million of 5.300% debentures due in 2035 and $23 million of cash. The $23 million of cash is included in payments on debt.

6.16

GENERAL ELECTRIC COMPANY (DEC)

(In millions)	2005	2004	2003
Cash flows—operating activities			
Net earnings	$ 16,353	$ 16,819	$ 15,236
Loss (earnings) from discontinued operations	1,922	(534)	(2,057)
Adjustments to reconcile net earnings to cash provided from operating activities			
Cumulative effect of accounting changes	—	—	587
Depreciation and amortization of property, plant and equipment	8,538	8,349	6,864
Earnings before accounting changes retained by GECS	—	—	—
Deferred income taxes	(1,121)	(172)	1,206
Decrease (increase) in GE current receivables	(360)	(849)	534
Decrease (increase) in inventories	(578)	(468)	874
Increase in accounts payable	1,238	4,090	232
Increase (decrease) in GE progress collections	510	(464)	(2,268)
Increase (decrease) in insurance liabilities	1,034	1,959	(729)
Provision for losses on GECS financing receivables	3,841	3,888	3,752
All other operating activities	2,410	(2,136)	(2,391)
Cash from operating activities—continuing operations	33,787	30,482	21,840
Cash from operating activities—discontinued operations	3,854	6,002	7,389
Cash from operating activities	37,641	36,484	29,229
Cash flows—investing activities			
Additions to property, plant and equipment	(14,441)	(13,092)	(9,751)
Dispositions of property, plant and equipment	6,027	5,838	4,918
Net increase in GECS financing receivables	(16,954)	(15,280)	(4,687)
Payments for principal businesses purchased	(11,498)	(18,703)	(14,352)
All other investing activities	6,535	10,785	7,974
Cash used for investing acitivities—continuing operations	(30,331)	(30,452)	(15,898)
Cash used for investing activities—discontinued operations	(4,718)	(7,962)	(5,945)
Cash used for investing activities	(35,049)	(38,414)	(21,843)
Cash flows—financing activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	(4,600)	(1,558)	(20,559)
Newly issued debt (maturities longer than 90 days)	66,523	58,538	67,719
Repayments and other reductions (maturities longer than 90 days)	(53,133)	(47,106)	(43,479)
Net dispositions (purchases) of GE shares for treasury	(4,844)	3,993	726
Dividends paid to shareowners	(9,352)	(8,278)	(7,643)
All other financing activities	(1,191)	(3,397)	286
Cash from (used for) financing activities—continuing operations	(6,597)	2,192	(2,950)
Cash from (used for) financing activities—discontinued operations	478	2,402	(682)
Cash from (used for) financing activities	(6,119)	4,594	(3,632)
Increase (decrease) in cash and equivalents during year	(3,527)	2,664	3,754
Cash and equivalents at beginning of year	15,328	12,664	8,910
Cash and equivalents at end of year	11,801	15,328	12,664
Less cash and equivalents of discontinued operations at end of year	2,790	3,176	2,734
Cash and equivalents of continuing operations at end of year	$ 9,011	$ 12,152	$ 9,930
Supplemental disclosure of cash flows information			
Cash paid during the year for interest	$(16,446)	$(11,907)	$(10,910)
Cash recovered (paid) during the year for income taxes	(3,254)	(1,339)	(1,539)

ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS

Employee Related Costs

6.17

APPLE COMPUTER, INC. (SEP)

(In millions)	2005	2004	2003
Operating activities			
Net income	$1,335	$ 276	$ 69
Cumulative effects of accounting changes, net of taxes	—	—	(1)
Adjustments to reconcile net income to cash generated by operating activities			
Depreciation, amortization and accretion	179	150	113
Stock-based compensation expense	42	33	16
Non-cash restructuring	—	5	12
Provision for (benefit from) deferred income taxes	52	20	(11)
Tax benefit from stock options	453	99	7
Loss on disposition of property, plant, and equipment	9	7	2
Gains on sales of short-term investments, net	—	(1)	(21)
Gains on non-current investments, net	—	(4)	(10)
Gain on forward purchase agreement	—	—	(6)
Changes in operating assets and liabilities			
Accounts receivable	(121)	(8)	(201)
Inventories	(64)	(45)	(11)
Other current assets	(150)	(176)	(34)
Other assets	(61)	(39)	(30)
Accounts payable	328	297	243
Other liabilities	533	320	152
Cash generated by operating activities	$2,535	$ 934	$ 289

Sale of Property

6.18

JLG INDUSTRIES, INC. (JUL)

(In thousands)	2005	2004	2003
Operations			
Net income	$ 57,173	$ 26,649	$ 12,392
Adjustments to reconcile net income to cash flow from operating activities:			
Loss on sale of property, plant and equipment	948	319	266
Gain on sale of equipment held for rental	(11,711)	(12,451)	(6,794)
Non-cash charges and credits:			
Depreciation and amortization	28,899	25,681	19,937
Provision for self-insured losses	12,731	10,295	6,344
Deferred income taxes	(16,548)	(7,869)	(6,336)
Other	10,803	14,580	7,861
Changes in selected working capital items:			
Accounts receivable	(25,948)	(66,296)	(35,324)
Inventories	(15,268)	9,188	43,137
Accounts payable	60,423	33,207	(46,026)
Other operating assets and liabilities	30,623	13,506	(12,706)
Changes in finance receivables	1,877	(6,112)	40,487
Changes in pledged finance receivables	36	(14,866)	(114,271)
Changes in other assets and liabilities	8,374	(11,090)	(3,295)
Cash flow from operating activities	$142,412	$ 14,741	$ (94,328)

Sale of Assets Other Than Property

6.19

AULT INCORPORATED (MAY)

	2005	2004	2003
Cash flows from operating activities:			
Net loss	$(5,327,122)	$(5,648,466)	$(7,563,831)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	517,990	872,276	721,439
Asset impairment	—	1,742,470	—
Loss from the sale of headquarter building	136,736	—	—
Loss from the sale of Korean subsidiary	2,442,000	—	—
Allowance for doubtful accounts	490,000	24,000	95,000
Goodwill impairment	—	—	1,153,153
Deferred taxes	—	—	(1,242)
Change in assets and liabilities, net of effect of acquisition:			
(Increase) decrease in:			
Trade receivables	(353,089)	109,640	(192,202)
Inventories	1,480,840	1,711,061	(431,072)
Prepaid and other expenses	246,088	(278,617)	63,357
Increase (decrease) in:			
Accounts payable	1,319,541	(87,604)	1,610,609
Accrued expenses	56,258	230,353	365,748
Income taxes	—	—	582,450
Discontinued operations	470,453	375,207	540,519
Net cash provided by (used in) operating activities	$ 1,479,695	$ (949,680)	$(3,056,072)

Equity Earnings/(Loss)

6.20

CABOT CORPORATION (SEP)

(Dollars in millions)	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ (48)	$124	$ 80
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	142	134	135
Deferred tax benefit	(57)	—	(31)
Equity in net income of affiliated companies	(12)	(7)	(5)
Asset impairment charges	221	15	33
Non-cash compensation	27	25	23
In process research and development charge	—	—	14
Gain on sale of investment	—	—	(35)
Other non-cash charges, net	14	14	14
Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates:			
Accounts and notes receivable	(39)	(45)	4
Inventories	(9)	(20)	(21)
Prepaid expenses and other current assets	5	—	—
Accounts payable and accrued liabilities	26	7	20
Income taxes payable	11	4	3
Other liabilities	(48)	(15)	1
Other, net	(9)	5	23
Cash provided by operating activities	$224	$241	$258

Intangible Asset Amortization

6.21

COCA-COLA BOTTLING CO. CONSOLIDATED (DEC)

(In thousands)	2005	2004	2003
Cash flows from operating activities			
Net income	$ 22,951	$ 21,848	$ 30,703
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation expense	68,222	70,798	76,485
Amortization of intangibles	880	3,117	3,105
Deferred income taxes	3,105	14,244	7,357
Losses on sale of property, plant and equipment	775	752	1,182
Amortization of debt costs	1,967	1,101	1,082
Amortization of deferred gains related to terminated interest rate agreements	(1,679)	(1,945)	(2,082)
Minority interest	4,097	3,816	3,297
(Increase) decrease in current assets less current liabilities	4,902	(8,098)	(13,212)
(Increase) decrease in other noncurrent assets	(1,475)	531	914
Increase (decrease) in other noncurrent liabilities	(1,471)	11,596	12,685
Other	(180)	101	(182)
Total adjustments	79,143	96,013	90,631
Net cash provided by operating activities	$102,094	$117,861	$121,334

Provision for Bad Debt

6.22

ABM INDUSTRIES INCORPORATED (OCT)

(In thousands)	2005	2004	2003
Cash flows from operating activities			
Net income	$ 57,941	$ 30,473	$ 90,920
Less income from discontinued operations	(14,387)	(829)	(56,322)
Income from continuing operations	43,554	29,644	34,598
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities			
Depreciation and intangible amortization	19,591	17,543	15,717
Provision for bad debts	1,112	4,482	6,326
Gain on sale of assets	(419)	(225)	(66)
Increase in deferred income taxes	(4,465)	(12,262)	(5,768)
(Increase) decrease in trade accounts receivable	(31,844)	(35,369)	1,212
(Increase) decrease in inventories	(726)	9	2,521
(Increase) decrease in prepaid expenses and other current assets	(5,888)	6,643	(3,086)
Increase in other assets	(2,132)	(3,074)	(5,950)
(Decrease) increase in prepaid and payable income taxes	(11,304)	5,935	(769)
(Decrease) increase in retirement plans and other non-current liabilities	(62)	1,483	384
Increase in insurance claims liability	10,630	37,622	9,674
Increase (decrease) in trade accounts payable and other accrued liabilities	26,752	11,981	(4,047)
Total adjustments to income from continuing operations	1,245	34,768	16,148
Net cash flows from continuing operating activities	44,799	64,412	50,746
Net operational cash flows from discontinued operations	(7,348)	(30,722)	9,396
Net cash provided by operating activities	$ 37,451	$ 33,690	$ 60,142

Restructuring Charges

6.23

LAM RESEARCH CORPORATION (JUN)

(In thousands)	2005	2004	2003
Cash flows from operating activities			
Net income (loss)	$299,341	$ 82,988	$ (7,739)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Loss on equity derivative contracts in company stock	—	—	16,407
Depreciation	23,667	23,418	30,490
Amortization	1,850	4,822	8,263
Deferred income taxes	89,352	10,862	(8,640)
Restructuring charges, net	14,201	6,676	14,937
Amortization of premiums on securities	3,285	3,966	6,214
Asset impairment charge	—	3,025	—
Loss on disposal of long-lived assets	—	732	1,372
Amortization of deferred stock-based compensation	864	3,167	593
Net noncash gain on retirement of 4% notes	—	(7,505)	—
Tax benefit from employee stock options	2,050	1,421	—
Other, net	(431)	(251)	679
Changes in working capital accounts			
Accounts receivable, net of allowance	13,470	(138,361)	23,659
Inventories	(2,588)	5,136	63,454
Prepaid expenses and other assets	(455)	6,528	(2,852)
Trade accounts payable	(33,108)	57,847	(24,306)
Deferred profit	(18,936)	63,105	(18,390)
Accrued expenses and other liabilities	33,368	29,573	(34,899)
Net cash provided by operating activities	$425,930	$ 157,149	$ 69,242

Changes in Assets and Liabilities

6.24

MAGNETEK, INC. (JUN)

(Amounts in thousands)	2005	2004	2003
Cash flows from continuing operating activities			
Net income (loss) from continuing operations	$ 819	$(9,470)	$13,178
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) continuing operating activities			
Depreciation	8,883	9,078	8,501
Amortization	253	513	268
Gain from termination of retiree medical plan	—	—	(27,771)
Changes in operating assets and liabilities of continuing operations	3,584	(2,169)	2,290
Total adjustments	12,720	7,422	(16,712)
Net cash provided by (used in) continuing operating activities	$13,539	$(2,048)	$ (3,534)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands)

17 (In Part): Supplemental Cash Flow Information

Changes in operating assets and liabilities of continuing operations were as follows:

	2005	2004	2003
(Increase) decrease in accounts receivable	$ 3,194	$(10,495)	$ (9,197)
(Increase) decrease in inventories	81	(1,787)	(10,336)
(Increase) decrease in prepaids and other current assets	1,370	(2,352)	737
(Increase) decrease in other operating assets	1,669	4,342	4,044
Increase (decrease) in accounts payable	(2,415)	4,422	11,812
Decrease in accrued liabilities	(858)	(1,143)	(2,955)
Increase (decrease) in deferred income taxes	(968)	6,666	7,083
Increase (decrease) in other operating liabilities	1,511	(1,822)	1,102
	$ 3,584	$ (2,169)	$ 2,290

6.25

MET-PRO CORPORATION (JAN)

	2006	2005	2004
Cash flows from operating activities			
Net income	$ 7,313,284	$ 4,814,679	$ 6,346,579
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,486,340	1,491,894	1,571,482
Deferred income taxes	610,593	511,225	471,652
(Gain) loss on sales of property and equipment, net	13,131	(6,358)	24,906
Allowance for doubtful accounts	34,002	4,823	(55,077)
(Increase) decrease in operating assets			
Accounts receivable	(4,428,817)	3,080,432	(4,156,402)
Inventories	(2,657,517)	(1,008,533)	766,704
Prepaid expenses, deposits and other current assets	(141,097)	(31,363)	(214,988)
Other assets	(484,162)	48,833	(336,490)
Increase (decrease) in operating liabilities			
Accounts payable and accrued expenses	2,283,700	(1,176,126)	3,352,279
Customers' advances	409,760	813,818	460,009
Other non-current liabilities	2,197	2,197	2,197
Net cash provided by operating activities	$ 4,441,414	$ 8,545,521	$ 8,232,851

INTEREST AND INCOME TAX PAYMENTS

6.26

BADGER METER, INC. (DEC)

(Dollars in thousands)	2005	2004	2003
Operating activities:			
Net earnings	$13,253	$ 9,633	$ 7,577
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation	6,164	7,070	7,606
Amortization	195	148	155
Tax benefit on stock options	1,370	877	585
Deferred income taxes	(318)	1,518	821
Noncurrent employee benefits	3,025	2,182	1,258
Refund from (contributions to) pension plan	(2,000)	(2,000)	702
Changes in:			
Receivables	(4,335)	(170)	(3,103)
Inventories	2,691	(5,345)	(3,606)
Prepaid expenses	(343)	(788)	95
Current liabilities other than debt	(1,341)	(6,828)	3,131
Total adjustments	5,108	(3,336)	7,644
Net cash provided by operations	18,361	6,297	15,221
Investing activities:			
Property, plant and equipment	(9,088)	(5,582)	(5,214)
Other—net	(271)	(733)	(117)
Net cash used for investing activities	(9,359)	(6,315)	(5,331)
Financing activities:			
Net increase (decrease) in short-term debt	(8,230)	13,566	(17,387)
Issuance of long-term debt	10,000	—	27,970
Repayments of long-term debt	(7,376)	(9,679)	(17,705)
Dividends paid	(3,923)	(3,633)	(3,425)
Proceeds from exercise of stock options	2,434	1,949	1,207
Treasury stock purchases	(3,323)	(1,711)	(1,066)
Issuance of treasury stock	1,286	816	607
Net cash provided by (used for) financing activities	(9,132)	1,308	(9,799)
Effect of foreign exchange rates on cash	1,699	(545)	(1,781)
Increase (decrease) in cash	1,569	745	(1,690)
Cash—beginning of year	2,834	2,089	3,779
Cash—end of year	$ 4,403	$ 2,834	$ 2,089
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 6,919	$ 7,767	$ 4,134
Interest	$ 2,269	$ 1,629	$ 2,071

6.27

PENTAIR, INC. (DEC)

(In thousands)	2005	2004	2003
Operating activities			
Net income	$ 185,049	$ 171,225	$ 141,352
Adjustments to reconcile net income to net cash provided by operating activities			
Net income from discontinued operations	—	(40,248)	(46,138)
Loss on disposal of discontinued operations	—	6,047	2,936
Depreciation	56,565	47,063	40,809
Amortization	15,995	7,501	377
Deferred income taxes	5,898	16,736	31,319
Stock compensation	24,186	6,345	4,003
Excess tax benefits from stock-based compensation	(8,676)	—	—
Gain on sale of investments	(5,435)	—	—
Changes in assets and liabilities, net of effects of business acquisitions and dispositions			
Accounts and notes receivable	(20,946)	26,918	(5,080)
Inventories	(19,201)	(51,996)	13,174)
Prepaid expenses and other current assets	(120)	2,176	(4,781)
Accounts payable	6,629	17,274	(12,758)
Employee compensation and benefits	(21,394)	4,596	4,813
Accrued product claims and warranties	(1,099)	2,993	(1,756)
Income taxes	10,357	6,352	5,437
Other current liabilities	4,609	8,879	(3,336)
Pension and post-retirement benefits	16,512	11,508	(2,108)
Other assets and liabilities	(439)	6,794	6,769
Net cash provided by continuing operations	248,490	250,163	175,032
Net cash (used for) provided by operating activities of discontinued operations	(632)	13,928	87,907
Net cash provided by operating activities	247,858	264,091	262,939
Investing activities			
Capital expenditures	(62,471)	(48,867)	(43,622)
Proceeds from sale of property and equipment	17,111	—	—
Acquisitions, net of cash acquired	(150,534)	(869,155)	(229,094)
Divestitures	(10,155)	773,399	(2,400)
Proceeds from sale of investment	23,835	—	—
Other	(2,071)	60	(5,246)
Net cash used for investing activities	(184,285)	(144,563)	(280,362)
Financing activities			
Net short-term repayments	—	(4,162)	(873)
Proceeds from the Bridge Facility	—	850,000	—
Repayment of the Bridge Facility	—	(850,000)	—
Proceeds from long-term debt	413,279	343,316	780,857
Repayment of long-term debt	(395,978)	(440,518)	(709,886)
Excess tax benefits from stock-based compensation	8,676	—	—
Proceeds from excercise of stock options	8,380	10,862	5,795
Repurchases of common stock	(25,000)	(4,200)	(1,589)
Dividends paid	(53,134)	(43,128)	(40,494)
Net cash (used for) provided by financing activities	(43,777)	(137,830)	33,810
Effect of exchange rate changes on cash	(2,791)	1,808	(8,046)
Change in cash and cash equivalents	17,005	(16,494)	8,341
Cash and cash equivalents, beginning of period	31,495	47,989	39,648
Cash and cash equivalents, end of period	$ 48,500	$ 31,495	$ 47,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information:

(In thousands)	2005	2004	2003
Interest payments	$44,403	$49,339	$41,962
Income tax payments	79,414	63,488	46,598

6.28

TEREX CORPORATION (DEC)

(In millions)	2005	2004	2003
Operating activities			
Net income (loss)	$ 188.5	$ 324.1	$(226.6)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation	61.4	60.1	67.5
Amortization	14.2	14.3	15.3
Deferred taxes	19.1	(203.9)	158.5
Loss on retirement of debt	—	2.9	10.9
Gain on sale of fixed assets	(3.3)	(22.0)	(4.5)
Impairment charges and asset writedowns	3.7	—	65.5
Changes in operating assets and liabilities (net of effects of acquisitions):			
Trade receivables	(100.9)	(134.7)	(114.2)
Inventories	(128.3)	(158.3)	160.1
Trade accounts payable	89.0	231.6	1.7
Accrued compensation and benefits	29.1	16.2	21.4
Income taxes payable	37.3	14.3	(7.8)
Other	63.6	20.0	5.2
Net cash provided by operating activities	273.4	164.6	381.3
Investing activities			
Acquisition of businesses, net of cash acquired	(5.1)	(58.0)	(6.7)
Capital expenditures	(48.6)	(35.5)	(27.1)
Investments in and advances to affiliates	(4.6)	(0.7)	(1.0)
Proceeds from sale of assets	1.6	32.4	6.1
Net cash used in investing activities	(56.7)	(61.8)	(28.7)
Financing activities			
Principal repayments of long-term debt	—	(147.0)	(454.5)
Proceeds from issuance of long-term debt, net of issuance costs	—	—	290.4
Net repayments under revolving line of credit agreements	(35.5)	(15.4)	(65.0)
Proceeds from stock options exercised	5.1	9.2	2.8
Payment of premium on early retirement of debt	—	—	(11.1)
Other	(18.6)	(16.9)	(29.4)
Net cash used in financing activities	(49.0)	(170.1)	(266.8)
Effect of exchange rate changes on cash and cash equivalents	(32.9)	18.6	29.5
Net increase (decrease) in cash and cash equivalents	134.8	(48.7)	115.3
Cash and cash equivalents at beginning of period	418.8	467.5	352.2
Cash and cash equivalents at end of period	$ 553.6	$ 418.8	$ 467.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

Note M (In Part): Long-Term Obligations

The Company paid $94.4, $85.9 and $102.5 of interest in 2005, 2004 and 2003, respectively.

Note O (In Part): Income Taxes

The Company made net income tax payments of $43.6, $26.2 and $8.5 in 2005, 2004 and 2003, respectively.

CASH FLOWS FROM INVESTING ACTIVITIES

6.29 Paragraphs 15–17 of *SFAS No. 95* define those transactions and events which constitute investing cash receipts and payments. With the exception of certain transactions described in paragraphs 12 and 13 of *SFAS No. 95* and paragraph 7 of SFAS No. 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Activities*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from investing activities follow.

Property Acquisitions/Disposals

6.30

AUTOZONE, INC. (AUG)

(In thousands)	2005	2004	2003
Cash flows from investing activities			
Capital expenditures	$(283,478)	$(184,870)	$(182,242)
Acquisitions	(3,090)	(11,441)	
Proceeds from disposal of capital assets	3,797	2,590	14,443
Net cash used in investing activities	$(282,771)	$(193,721)	$(167,799)

6.31

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of dollars)	2005	2004	2003
Cash provided from (used by) investing activities			
Expenditures for property, plant and equipment	$(190.3)	$(267.5)	$(300.9)
Net proceeds from sale of property, plant and equipment	30.1	29.9	6.5
Net proceeds from sales of businesses	—	10.7	23.6
Net cash used by investing activities	$(160.2)	$(226.9)	$(270.8)

Investments

6.32

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

(In thousands)	2005	2004	2003
Cash flows from investing activities			
Marketable securities purchased	$(50,771)	$(47,944)	$(18,075)
Marketable securities—maturities and sales	54,401	40,903	40,714
Acquisition of property, plant, and equipment	(13,832)	(28,188)	(2,903)
Acquisition of businesses, net of cash acquired	(750)	(1,400)	(10,218)
Sale of property, plant, and equipment	12	759	1,434
Other	—	—	88
Net cash provided by (used in) investing activities	$(10,940)	$(35,870)	$11,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

3 (In Part): Cash, Cash Equivalents and Marketable Securities

Marketable Securities (In Part)

The Company has classified all marketable securities as available-for-sale which requires the securities to be reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity.

At December 31, 2005 and 2004, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at December 31 is shown in the table:

	Marketable Securities			
(In thousands)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses
December 31, 2005				
Tax-exempt government bonds	$72,324	$72,108	$ 13	$229
Equity securities	—	—	—	—
Total marketable securities	$72,324	$72,108	$ 13	$229
December 31, 2004				
Tax-exempt government bonds	$74,811	$74,875	$201	$137
Equity securities	1,142	1,221	226	147
Total marketable securities	$75,953	$76,096	$427	$284

Proceeds from sales of marketable securities totaled $54,401,000 in 2005, $40,903,000 in 2004, and $40,714,000 in 2003. Gross gains related to sales of marketable securities totaled $203,000, $0, and $0 in 2005, 2004, and 2003. There were no gross losses related to sales of marketable securities in 2005, 2004, and 2003. Net unrealized gains and losses are reported as a separate component of accumulated other comprehensive income and were gains (losses) of ($216,000), $142,000, and $924,000 before taxes at December 31, 2005, 2004, and 2003.

6.33

PEPSIAMERICAS, INC. (DEC)

(In millions)	2005	2004	2003
Cash flows from investing activities			
Franchises and companies acquired, net of cash acquired	$(354.6)	$ (21.2)	$ (4.5)
Capital investments	(180.3)	(121.8)	(158.3)
Purchase of equity investment	(51.0)	—	—
Proceeds from sales of property	5.3	4.5	4.2
Proceeds from sales of investments, net	—	5.2	6.4
Net cash used in investing activities	$(580.6)	$(133.3)	$(152.2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments

In June 2005, we acquired a 49 percent minority interest in Quadrant-Amroq Bottling Company Limited ("QABCL"), for a purchase price of $51.0 million. QABCL is a holding company that, through its subsidiaries, produces, sells and distributes Pepsi and other beverages throughout Romania and Moldova. We recorded this investment under the equity method in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." Due to the timing of the receipt of available financial information from QABCL, we recorded the equity in net income on a one-month lag basis. Equity in net income for fiscal year 2005 was $4.9 million and was recorded in "Equity in net earnings (loss) of nonconsolidated companies" in the Consolidated Statement of Income.

Equity securities classified as available-for-sale are carried at fair value and included in "Other assets" in the Consolidated Balance Sheets. Estimated fair values were $20.1 million and $33.9 million at fiscal year end 2005 and 2004, respectively. Unrealized gains and losses representing the difference between carrying amounts and current fair value are recorded in the "Accumulated other comprehensive (loss) income" component of shareholders' equity. These unrealized gains, net of tax effects, totaled $4.1 million and $12.8 million at fiscal year end 2005 and 2004, respectively.

In fiscal year 2002, we sold a parcel of land in downtown Chicago. We received $26.5 million in cash and a $12.0 million promissory note collateralized by a subordinated mortgage related to the sale. As a result of this transaction, we recorded total gains of $10.8 million of which $5.2 million and $2.1 million were recognized in 2004 and 2003, respectively, related to the sale of this parcel of land. The gains are reflected in "Other (expense) income, net."

Business Combinations

6.34

BRUNSWICK CORPORATION (DEC)

(In millions)	2005	2004	2003
Cash flows from investing activities			
Capital expenditures	$(233.6)	$(171.3)	$(159.8)
Investments	(23.3)	(16.2)	(39.3)
Acquisitions of businesses, net of debt and cash acquired	(135.5)	(267.8)	(177.3)
Proceeds from investment sale	57.9	—	—
Proceeds on the sale of property, plant and equipment	13.4	13.4	7.5
Other, net	(1.7)	2.0	(3.0)
Net cash used for investing activities	$(322.8)	$(439.9)	$(371.9)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

5 (In Part): Acquisitions

All acquisitions are accounted for under the purchase method and in accordance with SFAS No. 141, "Business Combinations."

In 2005, cash paid for acquisitions, net of debt and cash acquired, was as follows:

Date	Name/Description	Net Cash Consideration[A]	Other Consideration	Total Consideration
2/07/05	Benrock, Inc.	$ 4.2	$ —	$ 4.2
2/28/05	Albemarle Boats, Inc.	9.2	—	9.2
4/21/05	Sea Pro, Sea Boss and Palmetto boats	1.0	—	1.0
4/29/05	MX Marine, Inc.	2.4	—	2.4
5/27/05	Triton Boat Company, L.P.	58.4	4.4	62.8
6/20/05	Supra-Industria Textil, Lda. (51 percent)	7.8	0.9	8.7
6/27/05	Marine Innovations Warranty Corporation	2.3	—	2.3
7/07/05	Kellogg Marine, Inc.	41.7	—	41.7
9/16/05	Harris Kayot Marine, LLC	4.8	—	4.8
	Miscellaneous	3.7	1.0	4.7
		$135.5	$6.3	$141.8

[A] Net cash consideration is subject to subsequent changes resulting from final purchase agreement adjustments.

In 2004, cash paid for acquisitions, net of debt and cash acquired, was as follows:

Date	Name/Description	Net Cash Consideration[A]	Other Consideration	Total Consideration
3/19/04	Vulcan-Bowling Pin Company and Vulcan-Brunswick Bowling Pin Company	$ 1.3	$ —	$ 1.3
4/01/04	Lowe, Lund, Crestliner	191.0	—	191.0
4/01/04	Marine Innovations Warranty Corporation	5.4	—	5.4
6/01/04	Navman NZ Limited (30 percent)	16.4	16.6	33.0
12/31/04	Sea Pro, Sea Boss and Palmetto boats	50.1	—	50.1
	Miscellaneous	3.6	—	3.6
		$267.8	$16.6	$284.4

[A] Net cash consideration is subject to subsequent changes resulting from final purchase agreement adjustments.

In 2003, cash paid for acquisitions, net of cash acquired, and other consideration provided was as follows:

Date	Company Name	Cash Consideration[A]	Other Consideration	Total Consideration
6/10/03	Valley-Dynamo, LP	$ 33.7	$ —	$ 33.7
6/23/03	Land 'N' Sea Corporation	30.4	23.4	53.8
6/23/03	Navman NZ Limited (70 percent)	37.3	—	37.3
7/01/03	New Eagle Software LLC	1.5	—	1.5
9/02/03	Attwood Corporation	47.5	—	47.5
9/15/03	Protokon, LLC (80 percent)	7.0	—	7.0
9/17/03	Hatteras Yachts, Inc.	19.4	—	19.4
9/30/03	Accelerate Performance Products, LLC	0.5	—	0.5
		$177.3	$23.4	$200.7

[A] Net of cash acquired. Cash consideration includes debt of acquired entities retired immediately after the close of the transactions.

Sale of Discontinued Operations

6.35

LA-Z-BOY INCORPORATED (APR)

(Amounts in thousands)	2005	2004	2003
Cash flows from investing activities			
Proceeds from disposals of assets	$ 11,226	$ 2,167	$ 4,348
Proceeds from sale of discontinued operations	10,985	—	—
Capital expenditures	(34,771)	(31,593)	(32,821)
Acquisitions, net of cash acquired	(6,806)	(9,189)	(3,089)
Change in other long-term assets	(4,621)	3,453	(22,871)
Net cash used for investing activities	$(23,987)	$(35,162)	$(54,433)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Discontinued Operations

Under the provisions of SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," we classify a business component that has been disposed of as a discontinued operation if the cash flow of the component has been eliminated from our ongoing operations and we will no longer have any significant continuing involvement in the component. The results of operations of our discontinued operations through the date of sale, including any gains or losses on disposition, are aggregated and presented on one line in the income statement. SFAS No. 144 requires the reclassification of amounts presented for prior years as discontinued operations. The amounts presented in the income statement for years prior to fiscal 2005 were reclassified to comply with SFAS No. 144.

As a result of the disposition of our La-Z-Boy Contract operating unit in April 2005, the balance sheet as of April 30, 2005 does not include any assets or liabilities of discontinued operations. The assets and liabilities for years prior to fiscal 2005 include the assets and liabilities of the operating unit and have not been reclassified. In the consolidated statement of cash flows, the cash flows of discontinued operations are not reclassified. See Note 14 for additional information regarding our discontinued operations.

Note 14 (In Part): Dispositions/Acquisitions

Discontinued Operations

On April 29, 2005, we completed the sale of our La-Z-Boy Contract operating unit for $11.0 million in cash and a note for $0.7 million. The pre-tax gain recognized on the sale during the fourth quarter of fiscal 2005 was $1.1 million. This disposition qualified for discontinued operations treatment. Accordingly, the consolidated statement of operations for all prior years has been reclassified to reflect the results of operations of this divested business as a discontinued operation. There were no assets or liabilities of discontinued operations reported in the consolidated balance sheet as of April 30, 2005. The assets and liabilities of this operating unit have not been reclassified for fiscal 2004. In the consolidated statement of cash flows, the cash flows of discontinued operations were not reclassified in all periods presented. The operating results for fiscal 2005, 2004 and 2003 of our La-Z-Boy Contract operating unit, which was part of our Upholstery segment, are reported in the following table.

(Amounts in thousands)	2005	2004	2003
Sales	$48,718	$46,879	$47,632
Income (loss) from operations before income taxes	2,142	1,048	(510)
Income tax expense (benefit)	814	398	(194)
Income (loss) from operations	1,328	650	(316)
Gain on disposal of operating unit (net of tax)	$ 668	$ —	$ —

Notes Receivable

6.36

BARNES & NOBLE, INC. (JAN)

(In thousands)	2005	2004	2003
Cash flows from investing activities			
Purchases of property and equipment	$(187,167)	$(184,885)	$(130,103)
Payments on GameStop note receivable	12,173	37,500	—
Net increase in other noncurrent assets	(1,289)	(956)	(1,430)
Acquisition of consolidated subsidiaries, net of cash acquired	—	(154,427)	(140,929)
Purchase of investments	—	—	(1,474)
Net cash flows from investing activities	$(176,283)	$(302,768)	$(273,936)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

2 (In Part): GameStop Spin-Off

On October 1, 2004, the Company's independent directors approved an overall plan for the complete disposition of all of its Class B common stock in GameStop Corp. (GameStop), the Company's former video game operating segment.

The first step in the disposition was the sale of 6,107,338 shares of GameStop Class B common stock held by the Company to GameStop (the Stock Sale) for an aggregate consideration of $111,520, consisting of $37,500 in cash and a promissory note in the principal amount of $74,020, bearing interest at a rate of 5.5% per annum. Scheduled payments on the note of $37,500 and $12,173 were received in January 2005 and October 2005, respectively, and the remaining balance is due in two equal annual installments of $12,173 on October 1, 2006 and 2007. The Stock Sale was completed on October 1, 2004. Because of the capital nature of the disposition, the proceeds from the Stock Sale were recorded as a reduction in the basis of the investment in GameStop, resulting in no gain for financial reporting purposes. In that regard, the tax adjustments associated with the related taxable capital gain on the Stock Sale, amounting to $14,443, have been charged directly to retained earnings. Also included in the charge to retained earnings are $263 of GameStop costs related to the redemption of their shares from the Company.

Capitalized Software

6.37

HURCO COMPANIES, INC. (OCT)

(Dollars in thousands)	2005	2004	2003
Cash flows from investing activities			
Proceeds from sale of property and equipment	$ —	$ 26	$ 14
Purchase of property and equipment	(1,879)	(762)	(536)
Software development costs	(1,161)	(1,290)	(679)
Change in restricted cash	277	345	(622)
Other proceeds (investments)	224	(53)	(25)
Net cash used for investing activities	$(2,539)	$(1,734)	$(1,848)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Research and Development Costs (In Part)

Costs incurred to develop computer software products and significant enhancements to software features of existing products to be sold or otherwise marketed are capitalized, after technological feasibility is established. Software development costs are amortized to Cost of Sales on a straight-line basis over the estimated product life of the related software, which ranges from three to five years. We capitalized $1,161,000 in 2005, $1,290,000 in 2004, and $679,000 in 2003 related to software development projects. Amortization expense was $329,000, $291,000, and $361,000, for the years ended October 31, 2005, 2004, and 2003, respectively. Accumulated amortization at October 31, 2005 and 2004 was $2.6 million and $2.3 million, respectively. Any impairment of the carrying value of the capitalized software development costs could be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

Estimated amortization expense for the existing amortizable intangible assets for the years ending October 31, is as follows:

Fiscal Year	Amortization Expense
2006	$535
2007	760
2008	714
2009	714
2010	605

Restricted Cash

6.38

DELUXE CORPORATION (DEC)

(In thousands)	2005	2004	2003
Cash flows from investing activities			
Payments for acquisitions, net of cash acquired	$ (2,888)	$(624,859)	$ —
Change in restricted cash	517	(517)	—
Purchases of capital assets	(55,653)	(43,817)	(22,034)
Other	2,107	(1,644)	(2,849)
Net cash used by investing activities of continuing operations	$(55,917)	$(670,837)	$(24,883)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Restricted Cash

Restricted Cash Related to the Acquisition of New England Business Service, Inc. (NEBS) in June 2004 (see Note 4)

Upon acquisition, we were required to place on deposit the funds required to pay shareholders who did not tender their shares of NEBS common stock under our tender offer. These shareholders had to present their stock certificates in order to receive their portion of the funds. The funds remained on deposit for nine months, at which time the remaining unclaimed funds were subjected to the escheat process required by applicable governmental authorities.

Note 4 (In Part): Acquisition of New England Business Service, Inc.

On June 25, 2004, we acquired all of the outstanding common stock of NEBS for $44 per share and agreed to redeem all outstanding NEBS stock options for $44 per option share less the option exercise price. The total purchase price for the acquisition was comprised of the following:

(In thousands)	
Cash payments for NEBS common stock	$585,351
Cash payments to redeem NEBS stock options	44,087
Direct costs of the acquisition	10,351
Total purchase price	639,789
Cash acquired from NEBS	(14,031)
Payments for acquisition, net of cash acquired	$625,758

Insurance Proceeds

6.39

BOYD GAMING CORPORATION (DEC)

(In thousands)	2005	2004	2003
Cash flows from investing activities			
Net cash paid for Coast Casinos acquisition	$ —	$ (909,245)	$ —
Net cash paid for Shreveport acquisition	—	(187,220)	—
Investments in and advances to Borgata	—	(30,807)	(50,065)
Capital expenditures	(618,444)	(268,848)	(81,536)
Insurance proceeds for replacement assets	6,000	—	—
Net proceeds from sales of undeveloped land and certain other assets	4,001	31,398	
Net cash used in investing activities	$(608,443)	$(1,364,722)	$(131,601)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Hurricane and Related Expenses

Delta Downs Racetrack Casino & Hotel

On September 22, 2005, Delta Downs Racetrack Casino & Hotel closed as a result of Hurricane Rita. Delta Downs reopened for business on November 3, 2005 with limited hours of operation and limited food and beverage outlets. Horse races at Delta Downs are scheduled to resume in April 2006. During the 42 days in 2005 that Delta Downs was closed, we incurred approximately $15.3 million of costs primarily relating to the write-off of damaged or destroyed fixed assets, payroll and certain fixed expenses. Through December 31, 2005, we have received insurance advances of $10.0 million for these items. We have recorded an insurance receivable of $4.3 million on the accompanying consolidated balance sheet at December 31, 2005 since we expect to receive insurance proceeds for a majority of these costs.

The following table presents information related to hurricane expenses and insurance receivables (in thousands):

	2005			
	Treasure Chest	Delta Downs	Other	Total
Net book value of damaged or destroyed fixed assets	$ 293	$ 7,000	$ —	$ 7,293
Repairs and maintenance	219	159	—	378
Total property damage	512	7,159	—	7,671
Total post-closing expenses	7,468	8,154	294	15,916
Total hurricane and related costs	7,980	15,313	294	23,587
Insurance proceeds	—	(10,000)	—	(10,000)
Insurance receivables	—	(4,313)	—	(4,313)
Total hurricane and related expenses, net	$7,980	$ 1,000	$294	$ 9,274

Insurance Coverage Related to Hurricane Impacts at Treasure Chest and Delta Downs

Property Damage—Treasure Chest and Delta Downs

Insurance policies carried on both Treasure Chest and Delta Downs include coverage for replacement costs related to property damage with associated deductibles of $1 million and certain other limitations. Based upon the minor damage sustained at Treasure Chest from the hurricane, no insurance claim was made for property damage because the deductible was not met. We have submitted insurance claims for the property damage sustained by Delta Downs from the hurricane because the damage exceeded the related insurance deductible. In 2005, we received insurance advances totaling $10.0 million from our insurance carrier, approximately $6 million of which related to partial reimbursement for property damage. We can provide no assurance that additional property damage will not be discovered as repairs are made for both Treasure Chest and Delta Downs or that any additional property damage would be covered by insurance.

As discussed above, our insurance policy at Delta Downs covers replacement costs for property damage. Through December 31, 2005, we received insurance advances related to property damage at Delta Downs in an amount that approximated the net book value of assets damaged or destroyed, net of the $1 million deductible. However, the cost of rebuilding and repairing these assets is expected to exceed the net book value of such assets. We expect the hurricane reconstruction costs will range from $35 million to $40 million. Through December 31, 2005, we had incurred approximately $22 million of capital expenditures related to this reconstruction project, $1 million of which will not be reimbursed due to the associated deductible and approximately $15 million of which had not yet been reimbursed by insurance. Any further insurance advances or settlements related to property damage will be recorded as a gain on our consolidated statement of operations, when fully realized, as the insurance proceeds would then exceed the net book value of damaged or destroyed assets. In 2006, we have received additional insurance advances totaling $14.0 million, all of which related to partial reimbursement of property damage. We are working with our insurance company on the scope of our reconstruction project and can provide no assurance that we will receive full reimbursement for the total cost of our reconstruction project.

Business Combination Adjustment

6.40

THE BLACK & DECKER CORPORATION (DEC)

(Millions of dollars)	2005	2004	2003
Investing activities			
Capital expenditures	$(111.1)	$(117.8)	$(102.5)
Proceeds from disposal of assets	12.7	26.0	15.0
Purchase of business, net of cash acquired	10.4	(804.6)	(277.6)
Proceeds from sale of business, net of cash transferred	33.6	—	—
Proceeds from sale of discontinued operations, net of cash transferred	17.2	77.5	—
Investing activities of discontinued operations	(.4)	(1.2)	(3.3)
Cash inflow from hedging activities	15.9	7.2	—
Cash outflow from hedging activities	(13.4)	(7.9)	—
Other investing activities, net	.5	1.2	.3
Cash flow from investing activities	$ (34.6)	$(819.6)	$(368.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions

Effective after the close of business on October 2, 2004, the Corporation acquired the Porter-Cable and Delta Tools Group from Pentair, Inc. The Porter-Cable and Delta Tools Group included the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw and FLEX businesses. The addition of the Porter-Cable and Delta Tools Group to the Corporation's Power Tools and Accessories segment allowed the Corporation to offer customers a broader range of products. The cash purchase price for the transaction was approximately $783.8 million net of cash acquired of $8.3 million and including transaction costs of $5.7 million. That cash purchase price of $783.8 million included a 2004 payment of $21.8 million, on a preliminary basis, based upon the estimated increase in the net assets of the Porter-Cable and Delta Tools Group, and a $10.4 million reduction, received in 2005, representing a preliminary adjustment to the purchase price. The final purchase price is subject to customary adjustments based upon the changes in the net assets of the Porter-Cable and Delta Tools Group through the closing date. The final purchase price has not yet been determined.

CASH FLOWS FROM FINANCING ACTIVITIES

6.41 Paragraphs 18–20 of *SFAS No. 95* define those transactions and events which constitute financing cash receipts and payments. With the exception of certain transactions described in paragraphs 12 and 13 of *SFAS No. 95* and paragraph 7 of *SFAS No. 104*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from financing activities follow.

Debt Proceeds/Repayments

6.42

INTERMEC, INC. (DEC)

(Thousands of dollars)	2005	2004	2003
Cash flows from financing activities:			
Repayment of long-term obligations	$(108,500)	$ —	$(16,200)
Cash restricted for repayment of debt	50,000	(50,000)	—
Stock options exercised	18,014	5,683	12,912
Other financing activities	2,148	211	(2,469)
Net cash used in financing activities of continuing operations	$ (38,338)	$(44,106)	$ (5,757)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Cash and Cash Equivalents, Long-Term Debt and Interest

Long-term debt comprises the following (thousands of dollars):

	Current Portion of Long-Term Debt		Non-Current Portion of Long-Term Debt	
	2005	2004	2005	2004
Debentures, with interest at 6.875%, due March 2005	$ —	$100,000	$ —	$ —
Debentures, with interest at 7.00%, due March 2008	—	—	100,000	100,000
Industrial revenue bonds, with interest at 4.18% as of December 31, 2004, retired July 2005	—	8,500	—	—
Long-term obligations	$ —	$108,500	$100,000	$100,000

In March 1998, Intermec sold $200.0 million principal amount of senior unsecured debt in an underwritten offering. The debt comprised $100.0 million of 6.875% seven-year notes and $100.0 million of 7.00% ten-year notes. Interest payments on the seven-year and ten-year notes are due semi-annually in March and September. Including underwriting fees, discounts and other issuance costs, the effective interest rates on the seven-year and ten-year notes are 7.125% and 7.175%, respectively. As of December 31, 2004, the $100.0 million seven-year notes, maturing in March 2005, are classified as current portion of long-term obligations on Intermec's consolidated balance sheet. In March 2005, Intermec retired the $100.0 million seven-year notes.

In July 2005, Intermec retired an $8.5 million industrial revenue bond, which carried a variable interest rate of 4.97%. The amount was classified as current portion of long-term obligations on Intermec's consolidated balance sheet as of December 31, 2004.

6.43

KELLWOOD COMPANY (JAN)

(Amounts in thousands)	2005	2004	2003
Financing activities			
Borrowings of long-term debt	$ 25,000	$195,343	$ —
Net borrowings (repayments) of notes payable	13,565	—	(636)
Repayments of long-term debt	—	(4,448)	(30,891)
Dividends paid	(17,361)	(17,584)	(16,982)
Stock purchases under stock repurchase program	(55,430)	—	—
Stock transactions under incentive plans	4,142	17,495	14,292
Net cash (used in) provided by financing activities	$(30,084)	$190,806	$(34,217)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 6 (In Part): Notes Payable and Long-Term Debt

Notes Payable (In Part)

On December 21, 2005, the Company's Asian operations executed a $50,000 five-year unsecured, syndicated term and revolving credit facility agreement to support its working capital needs (the Asian Credit Facility). The term portion of the Asian Credit Facility (the Asian Term Credit Facility) is discussed in the long-term debt section of this footnote. The revolving portion of the Asian Credit Facility (the Asian Revolving Credit Facility) is $25,000 and can be used for borrowings and/or letters of credit. Borrowings under the Asian Credit Facility bear interest at LIBOR plus a spread ranging from 1.10% to 1.35% with such spread depending on the Company's Asian operations' leverage ratio. The Asian Credit Facility contains certain customary covenants, which among other things, restrict the Company's Asian operations' ability to incur indebtedness, grant liens, make investments and acquisitions and sell assets. The financial covenants of the Asian Credit Facility include requirements that the Company's Asian operations satisfy an interest coverage ratio, a leverage ratio and a net worth maintenance covenant. The Company was in compliance with the covenants of the Asian Credit Facility at the end of 2005. At January 28, 2006, there were $13,000 of borrowings outstanding under the Asian Revolving Credit Facility.

In addition to the revolving credit facilities discussed above, the Company maintains informal uncommitted lines of credit, which totaled $35,859 at January 28, 2006. There were $565 of borrowings outstanding under these lines at January 28, 2006. The Company has $7,500 in outstanding letters of credit used by its foreign subsidiaries under these lines at January 28, 2006.

The weighted average interest rate on the notes payable was 5.8% as of January 28, 2006.

Long-Term Debt (In Part)

Long-term debt is comprised of the following at January 28, 2006 and January 29, 2005:

	2006	2005
3.50% 2004 Convertible Debentures due June 15, 2034	$200,000	$200,000
7.625% 1997 Debentures due October 15, 2017	129,592	129,520
7.875% 1999 Debentures due July 15, 2009	140,214	140,132
Asian Term Credit Facility	25,000	—
Capital lease obligations, 6–8%	6	154
	494,812	469,806
Less current maturities	(6)	(149)
	$494,806	$469,657

On December 21, 2005, the Company's Asian operations executed a $50,000 five-year unsecured, syndicated term and revolving credit facility agreement to support its working capital needs (the Asian Credit Facility). The term portion of the Asian Credit Facility (the Asian Term Credit Facility) is $25,000 and requires semiannual payments of principal beginning November 2006. See the notes payable section of this footnote for a discussion of the revolving portion and additional information related to the Asian Credit Facility.

Capital Stock Proceeds/Payments

6.44

BELLSOUTH CORPORATION (DEC)

(In millions)	2003	2004	2005
Cash flows from financing activities:			
Net borrowings (repayments) of short-term debt	$ (431)	$ 1,738	$(1,863)
Proceeds from the issuance of long-term debt	—	6,078	—
Repayments of long-term debt	(1,849)	(759)	(1,513)
Dividends paid	(1,608)	(1,901)	(2,051)
Purchase of treasury shares	(858)	(151)	(1,096)
Other financing activities, net	67	66	160
Net cash (used in) provided by financing activities from continuing operations	$(4,679)	$ 5,071	$(6,363)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars are in millions, except per share amounts and as otherwise indicated)

Note N (In Part): Shareholders' Equity

Shares Held in Trust and Treasury (In Part)

Shares held in trust and treasury, at cost, as of December 31 are comprised of the following:

	2004		2005	
	Shares (In Millions)	Amount	Shares (In Millions)	Amount
Shares held in treasury	163	$5,524	205	$6,616
Shares held by grantor trusts	26	380	17	199
Shares held in trust and treasury	189	$5,904	222	$6,815

Treasury Shares

Shares held in trust and treasury include treasury share purchases made by the Company primarily in open market transactions under repurchase plans and to satisfy shares issued in connection with employee share plans. The following table summarizes activity with respect to share repurchases for the periods presented:

	Number of Shares Purchased (In Millions)	Aggregate Purchase Price	Average Price per Share
2003	35.0	$ 858	$24.50
2004	5.8	$ 151	$26.17
2005	40.7	$1,096	$26.91
Total	81.5	$2,105	$25.83

We reissued 4.5 million shares in 2003, 7.0 million shares in 2004, and 7.9 million shares in 2005 in connection with various employee benefit plans.

6.45

PILGRIM'S PRIDE CORPORATION (SEP)

(In thousands)	2005	2004	2003
Financing activities			
Purchases for retirement of common stock	$(482,246)	$ —	$ —
Sale of common stock	521,928	—	—
Borrowing for acquisition	—	300,767	—
Proceeds from notes payable to banks	—	96,000	278,000
Repayments on notes payable to banks	—	(96,000)	(278,000)
Proceeds from long-term debt	—	332,516	108,133
Payments on long-term debt	(16,829)	(523,634)	(143,133)
Issue costs	—	(8,991)	(2,300)
Cash dividends paid	(3,993)	(3,993)	(2,467)
Cash provided by (used in) financing activities	$ 18,860	$ 96,665	$ (39,767)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Common Stock

On August 3, 2005, Pilgrim's Pride Corporation entered into a Purchase and Amendment Agreement with ConAgra Foods, Inc., providing for the repurchase by Pilgrim's Pride from ConAgra Foods, Inc. of an aggregate of 15,443,054 shares of Pilgrim's Pride common stock at a price per share of $31.23735. Under the ConAgra chicken division acquisition agreement these shares were restricted from sale by ConAgra for certain periods through December 2006. The repurchase was completed on August 9, 2004 and the shares were cancelled. There was no decrease in the total number of outstanding shares of common stock after giving effect to the repurchase as it occurred concurrent with the issuance of a like number of new shares in a public offering at an issue price of $33.86 per share. The net proceeds from these two transactions of $39.7 million, after consideration of $0.8 million in transaction costs, was credited to additional paid in capital.

Exercise of Stock Options

6.46

TIME WARNER INC. (DEC)

(Millions)	2005	2004	2003
Financing activities			
Borrowings	$ 6	$ 1,320	$ 2,371
Debt repayments	(1,995)	(4,523)	(7,109)
Redemption of redeemable preferred securities of subsidiary	—	—	(813)
Proceeds from exercise of stock options	307	353	372
Principal payments on capital leases	(118)	(191)	(178)
Repurchases of common stock	(2,141)	—	—
Dividends paid	(466)	—	—
Other	19	25	(11)
Cash used by financing activities	$(4,388)	$(3,016)	$(5,368)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stock-Based Compensation Plans

Stock Option Plans (In Part)

The Company has various stock option plans under which it may grant options to purchase Time Warner common stock to employees of Time Warner and its subsidiaries. Such options have been granted to employees of Time Warner and its subsidiaries with exercise prices equal to, or in excess of, fair market value at the date of grant. Accordingly, in accordance with APB 25 and related interpretations, compensation cost generally is not recognized for these stock option plans. Generally, the options become exercisable ratably, over a four-year vesting period, and expire ten years from the date of grant.

A summary of stock option activity under all plans is as follows:

	Thousands of Shares	Weighted-Average Exercise Price
Balance at December 31, 2002	657,440	$31.91
2003 activity:		
Granted	96,867	10.91
Exercised	(53,697)	6.96
Cancelled	(50,008)	36.67
Balance at December 31, 2003	650,602	30.48
2004 activity:		
Granted	70,839	17.27
Exercised	(49,414)	7.14
Cancelled	(53,029)	35.45
Balance at December 31, 2004	618,998	30.41
2005 activity:		
Granted	53,091	17.95
Exercised	(36,972)	8.32
Cancelled	(44,430)	32.88
Balance at December 31, 2005	590,687	$30.48

Dividends Paid

6.47

THE MCGRAW-HILL COMPANIES, INC. (DEC)

(In thousands)	2005	2004	2003
Financing activities			
Dividends paid to shareholders	$(246,048)	$(228,166)	$(206,543)
Payments/additions on short-term debt—net	(12,677)	(22,718)	(552,719)
Repurchase of treasury shares	(677,659)	(409,350)	(216,356)
Exercise of stock options	192,764	218,791	79,162
Other	(169)	(302)	(408)
Cash used for financing activities	$(743,789)	$(441,745)	$(896,864)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital Stock

In 2005, dividends were paid at the quarterly rate of $0.165 per common share. Total dividends paid in 2005, 2004 and 2003 were $246.0 million, $228.2 million and $206.5 million, respectively.

Debt Issuance Costs

6.48

KAMAN CORPORATION (DEC)

(In thousands)	2005	2004	2003
Cash flows from financing activities			
Changes in notes payable	$ (6,341)	$ 1,197	$ (2,664)
Changes in debt	27,745	(2,134)	(23,508)
Recapitalization	(13,892)	—	—
Proceeds from exercise of employee stock plans	585	1,218	1,287
Purchases of treasury stock	—	(9)	(205)
Dividends paid	(10,747)	(9,979)	(9,917)
Debt issuance costs	(824)	—	—
Other	—	(305)	—
Cash provided by (used in) financing activities	$ (3,474)	$(10,012)	$(35,007)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

10 (In Part): Credit Arrangements—Short-Term Borrowings and Long-Term Debt

Revolving Credit Agreement

On August 5, 2005, the company replaced its previous five-year, $150,000 revolving credit facility with a new $150,000 revolving credit facility expiring August 4, 2010, with The Bank of America and Bank of Nova Scotia as Co-Lead Arrangers and Administrators, JPMorgan Chase Bank as Syndication Agent, Key Bank as Documentation Agent, and

Citibank and Webster Bank as additional participants. The new facility includes an "accordion" feature that provides the company the opportunity to request an expansion of up to $50,000, subject to bank approval, in the size of the facility as well as a foreign currency feature that replaces the 9,500 Euro credit agreement. As of December 31, 2005, there was $73,945 available for borrowing under the Revolving Credit Agreement. Letters of credit are generally considered borrowings for purposes of the Revolving Credit Agreement.

In 2005, the company incurred $824 in debt issuance costs. These costs have been capitalized and will be amortized on a straight-line basis over the term of the facility. Total amortization expense for 2005 was $69.

Lease Obligation Payments

6.49

COHERENT, INC. (SEP)

(In thousands)	2005	2004	2003
Cash flows from continuing financing activities:			
Long-term debt borrowings	$ 2	$ 4	$ 363
Long-term debt repayments	(14,995)	(13,875)	(17,990)
Short-term borrowings	3	—	711
Short-term repayments	—	—	(16,822)
Cash overdrafts increase (decrease)	394	1,748	(232)
Repayments of capital lease obligations	(241)	(528)	(557)
Issuance of common stock under employee stock option and purchase plans	15,286	7,793	13,161
Collection of notes receivable from stock sales	434	35	1,252
Net cash provided by (used in) continuing financing activities	$ 883	$ (4,823)	$(20,114)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Long-Term Obligations

The components of long-term obligations are as follows (in thousands):

	2005	2004
Notes payable	$ 12,736	$ 27,675
Capital leases	—	240
	12,736	27,915
Current portion	(12,736)	(13,700)
Long-term obligations	$ —	$ 14,215

Excess Tax Benefits Related to Stock Options

6.50

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

($ in millions)	2005	2004	2003
Cash flows from financing activities			
Net proceeds from the issuance of long-term debt	$ —	$ —	$ 607
Payments of long-term debt, including capital leases and bond premiums	(474)	(856)	(450)
Common stock repurchased	(2,252)	(1,901)	—
Dividends paid, common and preferred	(131)	(150)	(160)
Proceeds from stock options exercised	162	248	31
Excess tax benefits on stock options exercised	43	—	—
Other	—	(1)	(8)
Net cash (used in)/provided by financing activities	$(2,652)	$(2,660)	$ 20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation (In Part)

The Company has a stock-based compensation plan that provides for grants to associates of restricted and non-restricted stock awards (shares and units), stock appreciation rights or options to purchase the Company's common stock. Prior to 2005, the Company accounted for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and related Interpretations. No compensation cost was reflected in the Consolidated Statements of Operations for stock options prior to 2005, since all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 30, 2005, the Company early-adopted SFAS No. 123 (revised), "Share-Based Payment" (SFAS No. 123R), which requires the use of the fair value method of accounting for all stock-based compensation, including stock options. The statement was adopted using the modified prospective method of application. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. The Company has not adjusted prior year financial statements under the optional modified retrospective method of adoption.

Compensation expense attributable to stock options in 2005 was $32 million ($20 million after tax), a reduction of $0.08 for both basic and diluted earnings per share.

SFAS No. 123R also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For 2005, this new treatment resulted in cash flows from financing activities of $43 million, which reduced cash flows from operating activities by the same amount. For 2004 and 2003, the tax benefit included in cash flows from operating activities was $76 million and $4 million, respectively.

15 (In Part): Stock-Based Compensation

In May 2005, the Company's stockholders approved the J. C. Penney Company, Inc. 2005 Equity Compensation Plan (2005 Plan), which reserved an aggregate of 17.2 million shares of common stock for issuance to associates and non-employee directors. The 2005 Plan replaces the Company's 2001 Equity Compensation Plan (2001 Plan). Effective June 1, 2005, all future grants will be made under the 2005 Plan. The 2005 Plan provides for grants to associates of options to purchase the Company's common stock, restricted and non-restricted stock awards (shares and units) and stock appreciation rights. The 2005 Plan also provides for grants of restricted and non-restricted stock awards (shares and units) and stock options to non-employee members of the Board of Directors. At January 28, 2006, 16.9 million shares of stock were available for future grants.

Stock options and awards typically vest over periods ranging from one to three years. The number of option shares is fixed at the grant date, and the exercise price of stock options is set at the market value of the Company's common stock on the date of grant. The 2005 Plan does not permit awarding stock options below grant-date market value. Options have a maximum term of 10 years. Over the past three years, the Company's annual stock option grants have averaged about 1.5% of total outstanding stock. The Company issues new shares upon the exercise of stock options.

The cost charged against income for all stock-based compensation was $38 million, $23 million and $9 million, respectively, for 2005, 2004 and 2003. The total income tax benefit recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was $15 million, $9 million and $4 million for 2005, 2004 and 2003, respectively. Compensation cost for 2005 includes $32 million ($20 million after tax) of costs related to the changes required by the adoption of SFAS No. 123R.

Stock Options (In Part)

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised are provided in the following table:

($ in millions)	2005	2004	2003
Proceeds from stock options exercised	$162	$248	$31
Tax benefit related to stock options exercised	45	82	4
Intrinsic value of stock options exercised	116	210	14

Cash payments for income taxes made during 2005 were reduced by $43 million for excess tax benefits realized on stock options exercised. In accordance with the new treatment required by SFAS No. 123R, these excess tax benefits are reported as financing cash inflows. For 2004 and 2003, excess tax benefits were included in operating cash flows and totaled $76 million and $4 million, respectively.

FOREIGN CURRENCY CASH FLOWS

6.51 Paragraph 25 of *SFAS No. 95* specifies the effect of exchange rate changes on cash balances held in foreign currencies be reported as a separate part of the Statement of Cash Flows. Examples of reporting foreign currency cash flows follow.

6.52

H.B. FULLER COMPANY (NOV)

(In thousands)	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 61,576	$ 35,603	$ 38,619
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	52,712	53,437	51,697
Amortization	2,763	2,593	2,439
Deferred income taxes	(4,752)	11,241	42
Gains from sales of assets	(7,150)	(370)	(2,767)
Change in assets and liabilities, net of assets and liabilities acquired:			
Accounts receivables, net	11,912	(8,374)	(14,179)
Inventories	7,053	(4,253)	3,986
Other current assets	4,105	(3,588)	4,300
Other assets	(671)	(987)	5,563
Trade payables	(18,794)	34,262	(1,830)
Accrued payroll/employee benefits	14,546	6,346	(13,369)
Other accrued expenses	(17,089)	7,423	1,272
Restructuring liabilities	(2,710)	(1,767)	(6,862)
Income taxes payable	8,940	(6,894)	3,016
Accrued/prepaid pensions	(100)	(2,368)	(20,129)
Other liabilities	4,807	4,820	6,575
Other	8,688	(3,875)	1,304
Net cash provided by operating activities	125,836	123,249	59,677
Cash flows from investing activities:			
Purchased property, plant and equipment	(25,455)	(31,260)	(39,263)
Purchased business, net of cash acquired	(537)	(19,295)	(2,106)
Purchased investments	(2,611)	(3,000)	(1,000)
Proceeds from sale of property, plant and equipment	12,196	3,202	5,710
Proceeds from sale of investments	8,000	1,877	—
Proceeds from repayment of note receivable from equity method investee	9,781	—	—
Net cash provided by (used in) investing activities	1,374	(48,476)	(36,659)
Cash flows from financing activities:			
Proceeds from long-term debt	—	—	62,018
Repayment of long-term debt	(22,740)	(2,712)	(63,056)
Net payments on notes payable	(4,108)	(247)	(10,702)
Dividends paid	(13,961)	(13,074)	(12,662)
Other, primarily proceeds from stock option exercises	7,293	2,061	1,014
Net cash used in financing activities	(33,516)	(13,972)	(23,388)
Net change in cash and cash equivalents	93,694	60,801	(370)
Effect of exchange rate changes	(3,091)	2,967	(36)
Cash and cash equivalents at beginning of year	67,028	3,260	3,666
Cash and cash equivalents at end of year	$157,631	$ 67,028	$ 3,260

6.53

TECUMSEH PRODUCTS COMPANY (DEC)

(Dollars in millions)	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$(223.5)	$ 10.1	$ 0.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	92.3	102.9	97.6
Non-cash restructuring charges and other items	115.0	5.0	49.3
Loss on disposal of property and equipment	2.4	4.5	—
Accounts receivable	7.3	27.2	25.7
Inventories	39.3	(79.8)	22.2
Payables and accrued expenses	0.7	(28.9)	(41.4)
Employee retirement benefits	(16.9)	(15.5)	(13.8)
Deferred and recoverable taxes	41.5	9.1	(9.9)
Net effect of environmental payment	—	(1.8)	(25.6)
Other	(42.1)	(27.6)	(18.2)
Cash provided by operating activities	16.0	5.2	86.0
Cash flows from investing activities:			
Capital expenditures	(113.3)	(84.0)	(82.8)
Business acquisitions, net of cash acquired	—	—	10.3
Proceeds from sale of assets	3.5	3.6	—
Cash used in investing activities	(109.8)	(80.4)	(72.5)
Cash flows from financing activities			
Dividends paid	(11.8)	(23.6)	(23.6)
Proceeds from borrowings	52.6	22.9	367.0
Repayments of borrowings	(14.8)	(58.2)	(375.0)
Repayments of long-term debt	(50.0)	—	—
Cash used in financing activities	(24.0)	(58.9)	(31.6)
Effect of exchange rate changes on cash	6.5	17.4	29.6
Increase (decrease) in cash and cash equivalents	(111.3)	(116.7)	11.5
Cash and cash equivalents:			
Beginning of period	227.9	344.6	333.1
End of period	$ 116.6	$ 227.9	$ 344.6

NONCASH ACTIVITIES

6.54 Paragraph 32 of *SFAS No. 95* requires the disclosure of information about noncash investing and financing activities. Examples of the disclosure of noncash activities follow.

6.55

ADVANCED MICRO DEVICES, INC. (DEC)

(In thousands)	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 165,483	$ 91,156	$ (274,490)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Minority interest in net loss of subsidiaries	(125,151)	(18,663)	(44,761)
Depreciation	1,163,937	1,173,598	955,560
Amortization	55,407	50,654	40,103
Provision for doubtful accounts	(5,063)	(2,821)	1,752
Equity in income of unconsolidated investee	(3,105)	—	(5,913)
Other than temporary impairment of equity investments	—	—	2,339
(Benefit) provision for deferred income taxes	(21,806)	(39,240)	2,971
Write-off of goodwill	15,683		
Restructuring and other special charges (recoveries), net	—	5,456	(9,994)
Charge relating to induced conversion of 4.5% notes	—	31,767	—
Interest expense paid with stock	—	3,769	—
Charge for early extinguishment of Fab 30 Term Loan	—	6,012	—
Foreign grant and subsidy income	(110,043)	(87,485)	(75,302)
Loss on disposition of equity interest in Spansion Inc.	109,681	—	—
Gain from partial sale of net assets to Spansion LLC	—	—	(5,681)
Net loss on equipment sale and lease back transaction	(751)	—	16,088
Net loss (gain) on disposal of property, plant and equipment	5,851	(3,775)	3,862
Net gain realized on sale of available-for-sale securities	—	(7,464)	(3,736)
Compensation recognized under employee stock plans	5,187	1,014	1,920
Recognition of deferred gain on sale of building	(1,680)	(1,681)	(1,681)
Tax benefit (expense) on minority interest in net loss of subsidiaries	9,948	5,938	(1,766)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(276,230)	(164,892)	67,877
Decrease (increase) in accounts receivable from Fujitsu	172,871	15,027	(187,898)
Increase in inventories	(27,780)	(179,981)	(77,426)
Decrease in prepaid expenses and other current assets	8,382	35,062	70,247
Increase in notes and other receivable from Spansion	(118,579)	—	—
Increase in other assets	(10,444)	(21,061)	(12,614)
Decrease (increase) in tax refund receivable	6,500	(12,600)	(6,555)
Increase (decrease) in taxes payable	(36,401)	5,775	19,882
Refund of customer deposits under long-term purchase agreements	(17,500)	(20,500)	(26,500)
Net increase (decrease) in payables and accrued liabilities	312,308	234,532	(192,848)
Increase (decrease) in accounts payable to related party	214,330	(13,076)	40,150
Increase (decrease) in accrued royalties payable to Fujitsu	(8,180)	—	—
Net cash provided by operating activities	$ 1,482,855	$ 1,086,521	$ 295,586

(continued)

(In thousands)	2005	2004	2003
Net cash provided by operating activities	$ 1,482,855	$ 1,086,521	$ 295,586
Cash flows from investing activities:			
Purchases of property, plant and equipment	(1,513,173)	(1,440,137)	(570,316)
Net cash acquired from formation and consolidation of Spansion LLC	—	—	147,616
Proceeds from sale of property, plant and equipment	9,679	34,183	29,939
Proceeds from Spansion repayment of intercompany loans	260,717	—	—
Acquisitions, net of cash acquired	—	—	(6,265)
Purchases of available-for-sale securities	(1,561,800)	(377,087)	(1,029,884)
Proceeds from sale and maturity of available-for-sale securities	836,152	227,257	1,512,093
Net cash impact of change in status of Spansion from consolidated subsidiary to unconsolidated investee	(133,075)	—	—
Purchase of Spansion senior subordinated notes	(158,957)	—	—
Other	(9,125)	—	—
Net cash (used in) provided by investing activities	(2,269,582)	(1,555,784)	83,183
Cash flows from financing activities:			
Proceeds from notes payable to banks	77,489	—	7,350
Proceeds from borrowings, net of issuance cost	168,637	745,377	—
Proceeds from borrowings from Fujitsu	—	—	40,000
Repayments of debt and capital lease obligations	(315,509)	(897,619)	(140,933)
Proceeds from foreign grants and subsidies	163,459	30,110	155,349
Proceeds from sale leaseback transactions	129,171	59,531	244,647
Proceeds from limited partners' contribution	89,606	127,916	—
Change in compensating balance	—	223,808	(74,447)
Proceeds from issuance of stock	189,349	123,677	35,436
Other	(8,013)	—	—
Net cash provided by financing activities	494,189	412,800	267,402
Effect of exchange rate changes on cash and cash equivalents	7,228	6,657	32,173
Net (decrease) increase in cash and cash equivalents	(285,310)	(49,806)	678,344
Cash and cash equivalents at beginning of year	918,377	968,183	289,839
Cash and cash equivalents at end of year	$ 633,067	$ 918,377	$ 968,183
Supplemental disclosures of cash flow information:			
Cash paid (refunded) during the year for:			
Interest, net of amounts capitalized	$ 139,173	$ 69,814	$ 81,303
Income taxes	$ 39,875	$ 33,550	$ (7,309)
Non-cash investing activities:			
Equipment purchased through acquisition	$ —	$ —	$ 2,932
Formation and consolidation of Spansion LLC:			
Total non-cash net assets of Manufacturing Joint Venture	$ —	$ —	$ 768,000
Total non-cash net assets contributed by Fujitsu	$ —	$ —	$ 154,000
AMD contribution of investment in Manufacturing Joint Venture	$ —	$ —	$ 390,069
Non-cash financing activities:			
Equipment sale leaseback transaction	$ 78,145	$ 34,366	$ 273,131
Capital leases	$ 119,002	$ —	$ 12,157
Conversion of senior convertible debt	$ 201,500	$ 201,000	$ —

6.56

BRINKER INTERNATIONAL, INC. (JUN)

(In thousands)	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 160,219	$ 150,918	$ 166,200
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	190,889	178,879	161,071
Restructure charges and other impairments	63,422	74,237	29,744
Deferred income taxes	(14,852)	1,467	37,743
Gain on sale of assets	(9,278)	(2,452)	—
Gain on extinguishment of debt	(1,750)	—	—
Amortization of deferred costs	4,365	9,318	11,721
Changes in assets and liabilities, excluding effects of acquisitions and dispositions:			
Receivables	(5,984)	(2,515)	(8,956)
Inventories	(12,630)	(14,047)	(2 726)
Prepaid expenses and other	(3,804)	2,182	392
Other assets	(3,377)	(3,146)	2,474
Current income taxes	1,784	38,864	37,314
Accounts payable	27,301	(2,273)	(10,350)
Accrued liabilities	37,382	34,645	14,603
Other liabilities	9,793	23,628	15,114
Net cash provided by operating activities	443,480	489,705	454,344
Cash flows from investing activities:			
Payments for property and equipment	(334,911)	(314,345)	(331,998)
Proceeds from sale of assets	44,484	22,235	—
Proceeds from sale of short-term investments	179,325	74,850	—
Purchases of short-term investments	—	(254,175)	—
Net payments (to) from affiliates	—	(2,252)	7,372
Investments in equity method investee	—	—	(1,750)
Net cash used in investing activities	(111,102)	(473,687)	(326,376)
Cash flows from financing activities:			
Payments on long-term debt	(301,364)	(17,120)	(16,890)
Purchases of treasury stock	(170,210)	(322,615)	(64,477)
Proceeds from issuances of treasury stock	71,112	41,587	40,300
Net borrowings (payments) on credit facilities	62,900	—	(63,500)
Net proceeds from issuance of debt	—	296,075	—
Net cash used in financing activities	(337,562)	(2,073)	(104,567)
Net change in cash and cash equivalents	(5,184)	13,945	23,401
Cash and cash equivalents at beginning of year	47,437	33,492	10,091
Cash and cash equivalents at end of year	$ 42,253	$ 47,437	$ 33,492

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows (in thousands):

	2005	2004	2003
Income taxes, net of refunds	$46,080	$40,677	$7,553
Interest, net of amounts capitalized	22,460	3,977	3,215

Non-cash investing and financing activities are as follows (in thousands):

	2005	2004	2003
Retirement of fully depreciated assets	$20,515	$ 14,235	$164,509
Conversion of debt into common stock	10,796	—	—
Capitalized straight-line rent	5,748	3,376	3,735
Net increase (decrease) in fair value of interest rate swaps	4,597	(15,523)	15,063
Restricted common stock issued, net of forfeitures	1,361	2,374	4,490
Issuance of notes for sale of Cozymel's	—	14,455	—

6.57

GIANT INDUSTRIES, INC. (DEC)

(In thousands)	2005	2004	2003
Cash flows from operating activities:			
Net earnings (loss)	$ 103,878	$ 16,221	$ 11,219
Adjustments to reconcile net earnings (loss) from to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	68	—	704
Depreciation and amortization from continuing operations	40,280	37,105	36,860
Depreciation and amortization from discontinued operations	—	93	657
Amortization/write-off of financing costs	2,797	8,341	4,696
Compensation expense related to restricted stock award	30	—	—
Deferred income taxes	32,541	8,565	7,971
Deferred crude oil purchase discounts	1,120	2,296	—
Net loss on the disposal/write-down of assets from continuing operations, including assets held for sale	1,009	161	1,837
Net (gain) on the disposal/write-down of assets from discontinued operations, including assets held for sale	(22)	(28)	(46)
(Gain) from insurance settlement of fire incident	(3,688)	(4,538)	—
Income tax benefit from exercise of stock options	2,167	1,059	—
Defined benefit retirement plan contribution	(2,039)	(1,828)	(1,086)
Long-term retiree medical plan contribution	(7)	—	—
Deferred compensation plan contribution	(357)	—	—
Changes in operating assets and liabilities			
(Increase) in receivables	(26,085)	(18,830)	(6,700)
(Increase) decrease in inventories	(25,562)	39,859	(25,386)
Decrease (increase) in prepaid expenses	1,360	(3,823)	335
(Increase) in other assets	(809)	(45)	(1,095)
Increase (decrease) in accounts payable	59,173	(11,096)	19,369
Increase in accrued expenses	615	451	11,371
Increase in other liabilities	2,339	2,551	1,643
Net cash provided by operating activities	188,808	76,514	62,349
Cash flows from investing activities:			
Purchase of property, plant and equipment	(70,659)	(58,671)	(17,879)
Acquisition activities	(39,405)	—	—
Proceeds from assets held for sale	1,948	9,977	9,653
Yorktown refinery acquisition contingent payment	—	(16,146)	(8,854)
Funding of restricted cash escrow funds	(21,902)	—	—
Release of restricted cash escrow funds	21,883	—	—
Net proceeds from insurance settlement of fire incident	3,688	6,612	—
Proceeds from sale of property, plant and equipment and other assets	2,578	1,846	11,780
Net cash used in investing activities	(101,869)	(56,382)	(5,300)
Cash flows from financing activities:			
Payments of long-term debt	(18,828)	(212,060)	(14,954)
Payments on short-term debt	—	(11,128)	—
Proceeds from line of credit	51,245	—	96,000
Payments on line of credit	(53,959)	—	(121,000)
Proceeds from issuance of long-term debt	—	147,467	—
Net proceeds from issuance of common stock	74,422	57,374	—
Proceeds from exercise of stock options	1,929	1,449	—
Long-term debt issuance costs	—	(3,000)	—
Deferred financing costs	(1,182)	(3,783)	—
Net cash used in financing activities	53,627	(23,681)	(39,954)
Net increase (decrease) in cash and cash equivalents	140,566	(3,549)	17,095
Cash and cash equivalents:			
Beginning of year	23,714	27,263	10,168
End of year	$ 164,280	$ 23,714	$ 27,263
Income taxes paid/(refunded)	$ 30,180	$ 1,797	$ (2,960)
Interest paid	$ 27,278	$ 35,285	$ 38,645

Significant Noncash Investing and Financing Activities by Year

In the first quarter of 2005, we transferred $118,000 of property, plant and equipment to other assets. In the second quarter of 2005, we contributed 34,196 newly issued shares of our common stock, valued at $971,000, to our 401 (k) plan as a discretionary contribution for the year 2004. In connection with our acquisition activity, we assumed approximately $18,377,000 of liabilities. In the fourth quarter of 2005, we granted 41,000 shares of restricted stock to our employees. These awards are recorded as unearned compensation in stockholders' equity. See Note 10 for further information. At December 31, 2005, approximately $10,636,000 of purchases of property, plant and equipment had not been paid and, accordingly, were accrued in accounts payable and accrued liabilities. In accordance with Financial Interpretation 47, "Accounting for Conditional Asset Retirement Obligations," we recorded an ARO liability of $147,000, and assets of $64,000 and related accumulated depreciation of $30,000. We also recorded a cumulative adjustment of $68,000, net of tax. During 2005, we also capitalized approximately $3,261,000 of interest as part of construction in progress.

In the first quarter of 2004, we contributed 49,046 newly issued shares of our common stock, valued at $900,000, to our 401 (k) plan as a discretionary contribution for the year 2003. During 2004, we reclassed approximately $2,774,000 from assets held for sale to inventory and property, plant and equipment. We also capitalized approximately $161,000 of interest as part of construction in progress in 2004. In the second quarter of 2004, we issued $150,000,000 of 8% Senior Subordinated Notes at a discount of $2,435,000.

On January 1, 2003, in accordance with SFAS No. 143, we recorded an asset retirement obligation of $2,198,000, asset retirement costs of $1,580,000 and related accumulated depreciation of $674,000. We also reversed a previously recorded asset retirement obligation for $120,000, and recorded a cumulative effect adjustment of $1,172,000 ($704,000 net of taxes). See Note 7. In the third quarter of 2003, we contributed 213,776 newly issued shares of our common stock, valued at $900,000, to our 401 (k) plan as a discretionary contribution for the year 2002. On September 30, 2003, we paid off certain capital lease obligations by paying approximately $4,703,000 in cash and by applying a $2,000,000 deposit that had been included in "Other Assets." In the fourth quarter of 2004, we sold our corporate headquarters building and approximately eight acres of surrounding land. In connection with the sale, we entered into a ten-year agreement to lease back our corporate headquarters building. The gain on the sale of the property of approximately $924,000 has been deferred and is being amortized over the original lease term.

6.58

ROBBINS & MYERS, INC. (AUG)

(In thousands)	2005	2004	2003
Operating activities			
Net (loss) income	$ (262)	$ 11,648	$ 14,623
Adjustments to reconcile net (loss) income to net cash and cash equivalents provided by operating activities:			
Depreciation	17,874	18,639	20,093
Amortization	2,519	2,738	2,189
Deferred taxes	1,234	(2,750)	3,612
Stock compensation	702	312	0
Loss on sale of business/facilities	1,974	0	0
Changes in operating assets and liabilities—excluding the effect of acquisitions:			
Accounts receivable	3,380	(3,524)	3,392
Inventories	1,819	(6,018)	2,807
Other assets	(3,948)	(2,967)	(1,537)
Accounts payable	4,978	8,755	4,815
Accrued expenses and other liabilities	(3,455)	(480)	(4,358)
Net cash and cash equivalents provided by operating activities	26,815	26,353	45,636
Investing activities			
Capital expenditures, net of nominal disposals	(20,263)	(9,884)	(7,869)
Proceeds from sale of business/facilities	15,798	0	0
Purchase of Tarby	0	0	(13,146)
Net cash and cash equivalents used by investing activities	(4,465)	(9,884)	(21,015)
Financing activities			
Proceeds from debt borrowings	104,876	82,658	72,485
Payments of long-term debt	(111,840)	(100,184)	(93,038)
Amended credit agreement fees	(262)	(1,078)	0
Proceeds from sale of common stock	2,492	1,513	895
Dividend paid	(3,213)	(3,085)	(3,150)
Net cash and cash equivalents used by financing activities	(7,947)	(20,176)	(22,808)
Increase (decrease) in cash and cash equivalents	14,403	(3,707)	1,813
Cash and cash equivalents at beginning of year	8,640	12,347	10,534
Cash and cash equivalents at end of year	$ 23,043	$ 8,640	$ 12,347

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 Cash Flow Statement Information

In fiscal 2005, we recorded the following non-cash investing and financing transactions: $3,948,000 increase in deferred tax assets, $8,691,000 increase in long-term liabilities, $505,000 increase in pension intangible asset and $4,743,000 increase in the minimum pension liability related to our pension plans; and $112,000 increase in common stock and decrease in income tax payable related to the tax benefits of stock options exercised.

In fiscal 2004, we recorded the following non-cash investing and financing transactions: $2,450,000 increase in deferred tax assets, $7,842,000 increase in long-term liabilities, $838,000 increase in pension intangible asset and $4,554,000 increase in the minimum pension liability related to our pension plans; and $176,000 increase in common stock and decrease in income tax payable related to the tax benefits of stock options exercised.

In fiscal 2003, we recorded the following non-cash investing and financing transactions: exchange of $40,000,000 of existing 6.50% convertible subordinated notes for $40,000,000 of 8.00% convertible subordinated notes; $632,000 increase in deferred tax assets, $1,723,000 increase in long-term liabilities, $759,000 increase in pension intangible asset and $332,000 increase in the minimum pension liability related to our pension plans; and $156,000 increase in common stock and decrease in income tax payable related to the tax benefits of stock options exercised.

Supplemental cash flow information consisted of the following:

(In thousands)	2005	2004	2003
Interest paid	$14,252	$14,205	$15,696
Taxes paid—net of refunds	7,811	8,345	4,110

CASH AND CASH EQUIVALENTS

6.59 A Statement of Cash Flows explains the change during a period in cash and cash equivalents. The amount of cash and cash equivalents reported on a Statement of Cash Flows should agree with the amount of cash and cash equivalents reported on a Statement of Financial Position. Paragraph 10 of *SFAS No. 95* requires that an entity disclose what items are treated as cash equivalents. Table 6-5 shows the descriptive terms used by the survey companies to describe a change in cash and cash equivalents. Examples of cash and cash equivalents disclosure follow.

6.60

TABLE 6-5: CASH AND CASH EQUIVALENTS

	2005	2004	2003	2002
Cash and cash equivalents	515	514	500	492
Cash and equivalents	44	41	40	44
Cash	25	31	40	41
Cash and short-term investments	6	6	9	9
Cash and short-term cash investments	6	5	7	9
Cash and temporary investments	2	2	2	2
Cash and marketable securities	—	—	—	—
Other descriptive captions	2	1	2	3
Total Companies	**600**	**600**	**600**	**600**

6.61

RPM INTERNATIONAL INC. (MAY)

Consolidated Balance Sheets

(In thousands)	2005	2004
Current assets		
Cash and short-term investments (Note A)	$ 184,140	$ 34,559
Trade accounts receivable (less allowances of $18,565 in 2005 and $18,147 in 2004)	553,084	488,139
Inventories	334,404	289,359
Deferred income taxes	40,876	40,919
Prepaid expenses and other current assets	158,991	138,613
Total current assets	$1,271,495	$991,589

Consolidated Statements of Cash Flows

(In thousands)	2005	2004	2003
Net change in cash and short-term investments	$149,581	$(12,410)	$ 4,797
Cash and short-term investments at beginning of year	34,559	46,969	42,172
Cash and short-term investments at end of year	$184,140	$ 34,559	$46,969

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

6) Cash and Short-Term Investments

For purposes of the statement of cash flows, we consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. We do not believe we are exposed to any significant credit risk on cash and short-term investments.

6.62

SYSCO CORPORATION (JUN)

Consolidated Balance Sheets

(In thousands)	2005	2004
Current assets		
Cash	$ 191,678	$ 199,706
Accounts and notes receivable, less allowances of $29,604 and $34,175	2,284,033	2,189,127
Inventories	1,466,161	1,404,410
Prepaid expenses	59,914	54,903
Prepaid income taxes	—	3,265
Total current assets	$4,001,786	$3,851,411

Consolidated Cash Flows

(In thousands)	2005	2004	2003
Net (decrease) increase in cash	$ (8,028)	$(137,741)	$139,008
Cash at beginning of year	199,706	337,447	198,439
Cash at end of year	$191,678	$ 199,706	$337,447

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Cash Flow Information

For cash flow purposes, cash includes cash equivalents such as time deposits, certificates of deposit, short-term investments and all highly liquid instruments with original maturities of three months or less.

6.63

WALGREEN CO. (AUG)

Consolidated Balance Sheets

(Dollars in millions)	2005	2004
Current assets		
Cash and cash equivalents	$ 576.8	$ 444.0
Short-term investments—available for sale	494.8	1,251.5
Accounts receivable, net	1,396.3	1,169.1
Inventories	5,592.7	4,738.6
Other current assets	255.9	161.2
Total current assets	$8,316.5	$7,764.4

Consolidated Statements of Cash Flows

(In millions)	2005	2004	2003
Net increase (decrease) in cash and cash equivalents	$132.8	$ (824.0)	$ 579.7
Cash and cash equivalents at beginning of year	444.0	1,268.0	688.3
Cash and cash equivalents at end of year	$576.8	$ 444.0	$1,268.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Major Accounting Policies (In Part)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. Included in cash and cash equivalents are credit card and debit card receivables from banks, which settle within two business days, of $55.4 million at August 31, 2005, and $53.3 million at August 31, 2004. The company's cash management policy provides for controlled disbursement. As a result, the company maintains overdraft positions at certain banks. Such overdrafts, which were $339.4 million as of August 31, 2005, and $226.7 million as of August 31, 2004, are included in trade accounts payable in the accompanying consolidated balance sheets.

6.64

ZIMMER HOLDINGS, INC. (DEC)

Consolidated Balance Sheets

(In millions)	2005	2004
Current assets		
Cash and equivalents	$ 233.2	$ 154.6
Restricted cash	12.1	18.9
Accounts receivable, less allowance for doubtful accounts	524.2	524.8
Inventories, net	583.7	536.0
Prepaid expenses	68.7	54.0
Deferred income taxes	153.7	272.6
Total current assets	$1,575.6	$1,560.9

Consolidated Statements of Cash Flows

(In millions)	2005	2004	2003
Increase in cash and equivalents	$ 78.6	$ 77.1	$61.8
Cash and equivalents, beginning of year	154.6	77.5	15.7
Cash and equivalents, end of year	$233.2	$154.6	$77.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Cash and Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the balance sheet for cash and equivalents are valued at cost, which approximates their fair value. Restricted cash is primarily composed of cash held in escrow related to certain insurance coverage.

Section 7: Independent Auditors' Report

PRESENTATION IN ANNUAL REPORT

7.01 This section reviews the format and content of Independent Auditors' Reports appearing in the annual reports of the 600 survey companies. Statement on Auditing Standards (SAS) No. 58, *Reports on Audited Financial Statements*, and its amendments, applies to auditors' reports issued in connection with audits of historical financial statements that are intended to present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

7.02 Commencing with auditors' reports issued or reissued on or after May 24, 2004, the format and content of independent auditors' reports appearing in the annual reports of public companies are determined by the auditing standards set by the Public Company Accounting Oversight Board (PCAOB). The Sarbanes-Oxley Act of 2002 established the PCAOB. The PCAOB is appointed by the Securities and Exchange Commission (SEC), and provides oversight for auditors of public companies. Section 103(a) of the Sarbanes-Oxley Act authorized the PCAOB to establish auditing and related professional practice standards to be used by public accounting firms registered with the PCAOB. PCAOB Rule 3100, *Compliance With Auditing and Related Professional Practice Standards*, requires auditors to comply with all applicable auditing and related professional practice standards of the PCAOB. On an initial, transitional basis, PCAOB has adopted as interim standards the generally accepted auditing standards described in the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board's SAS No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

7.03 Table 7-1 shows where, in relation to the financial statements and notes thereto, the Independent Auditors' Reports were presented in the annual reports to stockholders.

7.04

TABLE 7-1: PRESENTATION IN ANNUAL REPORT

	2005	2004	2003	2002
Precedes financial statements and notes	406	383	354	343
Follows financial statements and notes	193	216	245	250
Between financial statements and notes	1	1	1	6
Other	—	—	—	1
Total Companies	**600**	**600**	**600**	**600**

TITLE

7.05 Paragraph 8a of *SAS No. 58* states that the title of an auditors' report should include the word *independent*. With few exceptions, the auditors' report is entitled *"Report of Independent Registered Public Accounting Firm."*

ADDRESSEE

7.06 Paragraph 9 of *SAS No. 58* states:

> The report may be addressed to the Company whose financial statements are being audited or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to audit the financial statements of a Company that is not his client; in such a case, the report is customarily addressed to the client and not to the directors or stockholders of the Company whose financial statements are being audited.

7.07 Table 7-2 summarizes the addressee mentioned in the auditors' reports of the survey companies.

7.08

TABLE 7-2: ADDRESSEE OF AUDITORS' REPORTS

	2005	2004	2003	2002
Board of Directors and Stockholders	561	545	509	500
Board of Directors	20	30	49	53
Stockholders	12	17	28	31
Company	6	5	8	10
Other or no addressee	1	3	6	6
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

7.09 Paragraph 8 of *SAS No. 58* presents examples of auditors' standard reports for single-year financial statements and for comparative two-year financial statements. The examples presented in paragraph 8 of *SAS No. 58*, as amended by SAS No. 93, *Omnibus Statement on Auditing Standards—2000*, follow:

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20XX, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

7.10 Most of the survey companies present a balance sheet for 2 years and the other basic financial statements for 3 years. Appropriate wording in this situation is stated in footnote 7 to paragraph 8 of *SAS No. 58*.

7.11 As permitted by Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, 101 survey companies reported components of comprehensive income in either a separate financial statement or a combined statement of income and comprehensive income. Alternatively, *SFAS No. 130* allows components of comprehensive income to be reported in a statement of stockholders' equity. Although a Company may include the term "comprehensive income" in the title of the statement in which it is presented, *SFAS No. 130* does not require the use of the term in a Company's financial statements. *SFAS No. 130* acknowledges the use of equivalent terms. Standard auditors' reports for each situation follow.

Statement of Comprehensive Income

7.12

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ConAgra Foods, Inc.

We have audited the accompanying consolidated balance sheets of ConAgra Foods, Inc. and subsidiaries (the "Company") as of May 29, 2005 and May 30, 2004 and the related consolidated statements of earnings, comprehensive income, common stockholders' equity and cash flows for each of the three fiscal years in the period ended May 29, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion such consolidated financial statements present fairly, in all material respects, the financial position of ConAgra Foods, Inc. and subsidiaries as of May 29, 2005 and May 30, 2004, and the results of their operations and their cash flows for each of the three fiscal years in the period ended May 29, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its methods of accounting for variable interest entities and asset retirement obligations in 2004 and changed its method of accounting for goodwill and other intangible assets in 2003.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of May 29, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 11, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness.

Statement of Operations and Comprehensive Income

7.13

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
The Fairchild Corporation

We have audited the accompanying consolidated balance sheets of The Fairchild Corporation and subsidiaries (the "Company") as of September 30, 2005 and 2004, and the related consolidated statements of operations and other comprehensive income (loss), stockholders' equity and cash flows for the years ended September 30, 2005 and 2004, the three-month period ended September 30, 2003, and the year ended June 30, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Fairchild Corporation and subsidiaries as of September 30, 2005 and 2004, and the results of their operations and their cash flows for the years ended September 30, 2005 and 2004, the three-month period ended September 30, 2003 and the year ended June 30, 2003, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Fairchild Corporation's internal control over financial reporting as of September 30, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 29, 2005 expressed an unqualified opinion on management's assessment of internal control over financial reporting and an adverse opinion on the effective operation of internal control over financial reporting.

Statement of Changes in Shareholders' Equity

7.14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Werner Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Werner Enterprises, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule for each of the years in the three-year period ended December 31, 2005, listed in Item 15(a)(2) of this Form 10-K. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Werner Enterprises, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United

States), the effectiveness of Werner Enterprises, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 1, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

AUDITORS' STANDARD REPORT OF A PUBLIC COMPANY

7.15 For audits of public companies (i.e., issuers as defined by the Sarbanes-Oxley Act of 2002, and other entities when prescribed by the rules of the SEC), PCAOB Auditing Standard (AS) No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, directs auditors to state that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)" whenever the auditor has performed the engagement in accordance with the PCAOB's standards. *AS No. 1* is effective for auditors' reports issued or reissued after May 24, 2004. In addition, the PCAOB adopted as interim standards the generally accepted auditing standards of the AICPA as they existed on April 16, 2003. Consequently, reference to "the standards of the Public Company Accounting Oversight Board" with respect to audits performed prior to the effective date of this standard is equivalent to the previously required reference to generally accepted auditing standards. Accordingly, upon adoption of *AS No. 1*, reference to "generally accepted auditing standards" is no longer appropriate or necessary.

7.16 An example of a standard independent registered auditor's report presented in the Appendix to *AS No. 1* follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

REFERENCE TO REPORT OF OTHER AUDITORS

7.17 When the opinion of a principal auditor is based in part on the report of another auditor, SAS No. 1, section 543, *Part of Audit Performed by Other Independent Auditors*, as amended by SAS No. 64, *Omnibus Statement on Auditing Standards—1990*, provides guidance to the principal auditor. Paragraph 7 of *section 543* states:

> When the principal auditor decides that he will make reference to the audit of the other auditor, his report should indicate clearly, in both the introductory, scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own audit and that covered by the audit of the other auditor. The report should disclose the magnitude of the portion of the financial statements audited by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.

7.18 Paragraphs 12 and 13 of *SAS No. 58* reaffirm the requirements of *section 543.* Paragraph 13 presents an example of an auditors' report referring to the report of other auditors.

7.19 The auditors' report for 14 survey companies made reference to the report of other auditors. The reference to other auditors in 4 of these reports related to prior year financial statements. Examples of auditors' reports making reference to reports of other auditors follow.

7.20

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Bassett Furniture Industries, Incorporated

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated as of November 26, 2005, and November 27, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 26, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of International Home Furnishings Center, Inc. (a corporation in which the Company has a 47% interest), have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for International Home Furnishings Center, Inc., is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in International Home Furnishings Center, Inc. is stated at $(11,833,000) and $(12,578,000), respectively at November 26, 2005 and November 27, 2004, and the Company's equity in the net income of International Home Furnishings Center, Inc. is stated at $6,367,000, $6,116,000 and $6,025,000 for each of the three years in period ended November 26, 2005.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also Includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated at November 26, 2005 and November 27, 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 26, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Bassett Furniture Industries, Incorporated's internal control over financial reporting as of November 26, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 26, 2006, expressed an unqualified opinion thereon.

7.21

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Coherent, Inc.

We have audited the accompanying consolidated balance sheets of Coherent, Inc. and its subsidiaries (collectively, the "Company") as of September 30, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Lambda Physik AG and subsidiaries (Lambda Physik) for the year ended September 30, 2003, which statements reflect total revenues constituting 20 percent of consolidated total revenues for the year ended September 30, 2003. Such consolidated financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lambda Physik for the year ended September 30, 2003, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 30, 2005, based on the criteria established in *Internal Control— Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 15, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

UNCERTAINTIES

7.22 SAS No. 79, *Amendment to Auditing Standards No. 58*, amends *SAS No. 58* to eliminate the requirement for an explanatory paragraph for uncertainties as defined in paragraphs 29 and 30 of amended *SAS No. 58. SAS No. 79* does not apply to uncertainties related to going concern situations for which SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended, and SAS No. 85, *Management Representations*, provide guidance.

7.23 Table 7-3 summarizes the nature of uncertainties for which an explanatory paragraph was included in an auditors' report. Examples of explanatory language for a going concern situation follow.

7.24

TABLE 7-3: UNCERTAINTIES

	2005	2004	2003	2002
Going concern	10	6	11	20
Other	—	4	2	8
Total Uncertainties	**10**	**10**	**13**	**28**
Total Companies	**10**	**8**	**12**	**26**

7.25

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Silicon Graphics, Inc.

We have audited the accompanying consolidated balance sheets of Silicon Graphics, Inc. as of June 24, 2005 and June 25, 2004, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended June 24, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Silicon Graphics, Inc. at June 24, 2005 and June 25, 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 24, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements and schedule have been prepared assuming that Silicon Graphics, Inc. will continue as a going concern. As more fully described in Note 1, Silicon Graphics, Inc. has incurred recurring operating losses, negative cash flows and has a stockholders' deficit. These conditions raise substantial doubt about Silicon Graphics, Inc.'s ability to continue as a going concern. (Management's plans in regard to these matters are also described in Note 1.) The financial statements and schedule do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Silicon Graphics, Inc.'s internal control over financial reporting as of June 24, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 15, 2005 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

SGI is a leading provider of products, services, and solutions for use in high-performance computing, visualization, and storage. We sell highly scalable servers, advanced visualization systems, desktop workstations, storage solutions, and associated software products which enable our customers in the scientific, technical, and creative communities to solve their most challenging problems and provide them with strategic and competitive advantages. We also offer a range of services and solutions, including professional services, customer support, and education. These products and services are targeted primarily towards five market segments: defense and homeland security, science and research, manufacturing, energy, and media.

Our products are manufactured in Chippewa Falls, Wisconsin. We distribute our products through our direct sales force and through indirect channels including resellers, distributors and system integrators. Product and other revenue consist primarily of revenue from computer system and software product shipments and from system leasing, technology licensing agreements, and non-recurring engineering contracts. Service revenue results from customer support and maintenance contracts and from delivery of professional services.

We have operating losses and negative cash flows from operations during each of the past several fiscal years. Our working capital at June 24, 2005 was $49 million, down from $76 million at June 25, 2004. Additionally, we had a stockholders' deficit of $191 million at June 24, 2005. Our unrestricted cash and marketable investments at June 24, 2005 were $64 million, down from $157 million at June 25, 2004.

In the fourth quarter of fiscal 2005 we retained the turnaround firm AlixPartners LLC to advise us regarding further expense reductions, increasing revenue, improving liquidity and our intentions to initiate restructuring actions in the first quarter of fiscal 2006.

On August 30, 2005, the Company approved a restructuring plan and began to implement a reduction in force with notifications to affected employees in North America and certain other locations on September 1, 2005. In addition to the headcount reductions, the restructuring plan includes initiatives to reduce expenses in other areas, including procurement costs for goods and services, consolidation and reorganization of operations in several locations, focusing marketing spending on the highest priority activities and benefits and other spending controls. The anticipated benefits of this restructuring plan are expected to be experienced beginning in the second quarter of fiscal 2006 with increasing benefits anticipated over the remainder of the fiscal year. See Note 24 for additional discussion related to our restructuring plans.

It is essential to the success of the restructuring plan and the achievement of our goals for fiscal 2006 that we raise additional financing and in September 2005 we executed a commitment letter with Wells Fargo Foothill, Inc. and Ableco Finance LLC with respect to a new asset-backed credit facility that will replace our current facility and provide a significant increase in borrowing availability. See Note 24. We cannot be certain, however, that arrangements for this or other additional financing will be successfully completed, that we will be able to maintain compliance with all of the covenants contained in any additional financing or that the additional financing would be adequate to achieve our objectives.

Even if we are able to secure the additional financing described in Note 24, there are significant risks associated with the achievement of our goals for fiscal 2006. Currently, our cash level is inadequate to support our operations and we expect to continue consuming cash from operations in at least the first half of fiscal 2006. The new funds and our current sources of liquidity will only be adequate for our fiscal 2006 operating needs if our restructuring plan yields its anticipated savings and we meet our operating goals for fiscal 2006. Our operating goals include returning to operating profitability in the second half of fiscal 2006, requiring us to achieve significant year-over-year revenue growth in that period while realizing our targeted expense savings and margin improvements. If we fail to achieve these targets, we will likely consume further cash in our operations, which would again impair our liquidity. If we are unable to complete the financing or an equivalent transaction, we would consider alternatives for ensuring the continued operation of our business. These could include further reductions in headcount and in the scope of our operations, generating cash from selling or licensing our intellectual property and seeking funding from marketing partners and government customers.

In light of these challenges, our Board of Directors is evaluating a range of strategic alternatives with the goal of preserving and creating value for the benefit of stockholders and creditors. Alternatives include pursuing our current strategy as an independent public company, seeking a strategic partner or acquirer, seeking a financial partner to make a substantial equity investment, divesting additional technologies or products, or some combination of the foregoing. We cannot assure that any acquisition or other change in control transaction will occur, or that if such a transaction does occur that it would result in stockholders realizing value equal to or greater than the current trading price of our common stock. If we fail to implement one or more of these alternatives successfully, we could be forced to seek protection under bankruptcy laws.

Note 11. Financing Arrangement

On April 12, 2005 we renewed our asset-based credit facility with Wells Fargo Foothill, Inc., with improved terms, for a two-year period expiring in April 2007. These improved terms, some of which we received the benefit of through amendments to our prior facility, include increasing availability under the facility by expanding the existing borrowing base to add categories of collateral that tend to remain relatively fixed throughout each quarter, including our intellectual property and eligible real property, and adjusting the calculation of inventory reserves and eligible accounts receivable. In addition, the renewed facility provides for less restrictive financial covenants than those of the prior line, including reduction of the minimum cash covenant from $50 million to $25 million. The credit facility also contains restrictions that currently limit the facility to $50 million and require the deposit of a minimum of $20 million in cash collateral with the lender. We are using our full capacity under this line to secure $47 million in letters of credit, principally the rent deposits required under our leases for the Amphitheatre and Crittenden Technology Center campuses in Mountain View, California. We deposit additional cash collateral when the eligible accounts receivable and other collateral, which fluctuate within the quarter, are below the level needed to secure our letters of credit. The credit facility was secured by total cash collateral (including the minimum cash deposit requirement) of $20 million at June 24, 2005, which is included as a component of Short-term Restricted Investments.

Available credit under the renewed credit facility is determined weekly based on the value of working capital items, real estate and intellectual property and is secured by substantially all our assets and the assets of our subsidiary that is responsible for our U.S. federal government business. Maturity of the credit facility is subject to acceleration upon various customary events of default. This obligation bears interest payable monthly at the prime rate plus 0.25% (6.25% at June 24, 2005) for cash advances and at 2.0% for letters of credit. The credit facility includes financial covenants and other terms and conditions customary to credit facilities of this type and permits the lender to decline future extensions of credit if a material adverse change has occurred. Covenants in the credit facility provide for minimum levels of EBITDA (earnings before interest, taxes, depreciation and amortization), minimum cash and cash equivalents levels and limits on purchases of property and equipment. The credit facility also limits our ability to incur additional indebtedness, dispose of certain assets, pay dividends on capital stock, repurchase capital stock or prepay or repurchase debt obligations. On several occasions during the past three fiscal years, we were in violation of financial and administrative covenants in the predecessor facility. In each case we received a waiver of compliance from the lender. During the fourth quarter of fiscal 2005, we were in violation of a financial covenant of the current facility and received a waiver of compliance from the lender. In the event we are not able to comply with the financial covenants and other terms of this facility and the default is not waived, it could have a significant impact on our working capital. If we were unable to obtain a necessary waiver, we would be required to deposit an amount equal to the difference between our then current restricted cash deposits with the lender and the full amount of the letters of credit secured by the facility. At June 24, 2005, this amount would have been $27 million.

Note 24. Subsequent Events (Unaudited)

Restructuring

In our earnings release for the quarter and fiscal year ended June 24, 2005, we disclosed that we had retained the turnaround firm AlixPartners LLC to advise us regarding further expense reductions, increasing revenue, improving liquidity and our intentions to initiate restructuring actions in the first quarter of fiscal 2006. On August 30, 2005, the Company approved a restructuring plan and began to implement the actions under this plan with notifications to affected employees in North America and certain other locations on

September 1, 2005. The balance of the notifications will follow over a reasonable time period, consistent with business and local legal requirements in other parts of the world.

In addition to the headcount reductions, the restructuring actions include initiatives to reduce expenses in other areas including procurement costs for goods and services, consolidation and reorganization of operations in several locations, prioritization of marketing and benefits spending and other expense controls.

The benefits of our fiscal 2006 restructuring plan will be reflected in a combination of lower operating expenses and improved gross margins. Anticipated savings from these initiatives will begin to be realized in the second quarter of fiscal 2006 with increasing benefits over the fiscal 2006. Approximately 60% to 70% of the savings are expected to result from reductions in the number of employee and contractor positions with the Company.

We currently estimate that total costs to be incurred in connection with these restructuring actions will be less than $20 million, principally relating to severance benefits. Substantially all of these costs will require the outlay of cash, although our severance programs provide, wherever practical, for payments to be made over the same period in which the payroll expenses otherwise would have been incurred, with the objective of minimizing incremental cash expense. We expect the majority of the restructuring charges to be reflected in our financial results for the quarter ending December 30, 2005 and the restructuring to be principally completed by the end of the fiscal quarter ending March 31, 2006.

Financing

On September 14, 2005, we executed a commitment letter with Wells Fargo Foothill, Inc. and Ableco Finance LLC with respect to a new asset-backed credit facility that will provide availability of up to $100 million. The new two-year facility, which will consist of a $50 million revolving line of credit and a term loan of $50 million, will replace our existing asset-based credit facility. The existing facility provides availability of up to $50 million, but is subject to a minimum cash collateral requirement of $20 million to support the borrowing base. The new facility has no minimum cash collateral requirement. The existing facility is used principally to support letters of credit required under leases for our Amphitheatre and Crittenden Technology Center campuses in Mountain View, CA. The new facility will support the letters of credit and is expected to provide significant additional liquidity to support operations. As with our current credit facility, actual availability under the proposed new facility will be determined under a formula based upon levels of assets, including both current assets like inventory and accounts receivable and non-current assets like real property and intellectual property. The proposed new facility will contain certain financial covenants requiring us to maintain minimum levels of EBITDA and unrestricted cash, as well as limitations on our annual capital expenditures. The new financing is subject to the execution of definitive agreements and is expected to be completed by the end of October 2005. We cannot be certain, however, that arrangements for this or other additional financing will be successfully completed, that we will be able to maintain compliance with all of the covenants contained in any additional financing or that the additional financing would be adequate to achieve our objectives.

7.26

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Winn-Dixie Stores, Inc.

We have audited the accompanying consolidated balance sheets of Winn-Dixie Stores, Inc. and subsidiaries (Debtors-In-Possession as of February 21, 2005) as of June 29, 2005 and June 30, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years ended June 29, 2005, June 30, 2004 and June 25, 2003. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Winn-Dixie Stores, Inc. and subsidiaries (Debtors-In-Possession as of February 21, 2005) at June 29, 2005 and June 30, 2004, and the results of their operations and their cash flows for each of the years ended June 29, 2005, June 30, 2004 and June 25, 2003 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the base consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, as a result of the bankruptcy filing, realization of assets and satisfaction of liabilities, without substantial adjustments and/or changes in ownership, are subject to uncertainty and raise substantial doubt about the Company's ability to continue as a going concern. Management's plan concerning these matters is also discussed in Note 2. The financial statements do not include adjustments that might result from the outcome of this uncertainty.

Also, as discussed in Note 21, subsequent to June 29, 2005, certain of the Company's stores were damaged due to Hurricane Katrina.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Winn-Dixie Stores, Inc.'s internal control over financial reporting as of June 29, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 25, 2005 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Proceedings Under Chapter 11 of the Bankruptcy Code

On February 21, 2005 (the "Petition Date"), Winn-Dixie Stores, Inc. and 23 of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws ("Chapter 11" or "Bankruptcy Code") in the United States Bankruptcy Court. The Company's subsidiaries W-D Bahamas Ltd. (and its direct and indirect subsidiaries) and WIN General Insurance, Inc. (the "Non-Filing Entities," collectively with the Debtors, the "Company") did not file petitions under Chapter 11 of the Bankruptcy Code.

Prior to filing, the Company experienced net losses and at the end of the second quarter of fiscal 2005, the Company reported a significant decline in liquidity. Following this announcement and subsequent downgrades from the major debt rating agencies, the Company experienced a tightening of trade credit by many of its vendors and its primary bank eliminated its incoming and outgoing Automated Clearing House ("ACH") float, both of which further reduced its liquidity. The Company therefore decided to seek judicial reorganization under Chapter 11.

The Chapter 11 proceedings were initiated in the United States Bankruptcy Court for the Southern District of New York (the "New York Court") on the Petition Date. On April 13, 2005, the New York Court ordered a change of venue for the bankruptcy proceedings to the United States Bankruptcy Court for the Middle District of Florida (the "Florida Court"). The cases are being jointly administered by the Florida Court under the caption "In re: Winn-Dixie Stores, Inc., et al., Case No. 05-03817." References to the "Court" refer to either the New York Court or the Florida Court as appropriate.

The Company currently operates the business as debtors-in-possession pursuant to the Bankruptcy Code. As debtors-in-possession, it is authorized to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the approval of the Court, after notice and an opportunity for a hearing. Under the Bankruptcy Code, actions to collect pre-petition indebtedness, as well as most other pending litigation, are stayed and other contractual obligations against the Debtors generally may not be enforced. The rights of and ultimate payments by the Company under pre-petition obligations will be addressed in any plan of reorganization and may be substantially altered. This could result in unsecured claims being compromised at less (and possibly substantially less) than 100% of their face value.

In conjunction with the Chapter 11 filing, the Debtors were granted several "first-day" orders by the Court that enable the Company to operate substantially in the ordinary course of business during the bankruptcy proceedings. Among the first-day orders were orders that permit the Debtors to: pay salaries, wages and health and welfare benefits to associates in the ordinary course of business; honor customer service programs, such as returns, refunds, coupons, gift cards and its Customer Reward Card program; and pay certain limited categories of other pre-petition claims as necessary to avoid harm to the business. Subsequent orders authorized sales of certain assets, severance payments to terminated employees and implementation of a key employee retention plan for designated associates who have the specialized knowledge, experience and skills needed to support the Company's business operations and meet the additional demands of the Chapter 11 process.

The Company has in place a Court-approved $800.0 million debtors-in-possession credit facility (the "DIP Credit Facility") to supplement its cash flow during the reorganization process.

Under the Bankruptcy Code, the Debtors generally must assume or reject pre-petition executory contracts, including but not limited to real property leases, subject to the approval of the Court and certain other conditions. In this context, "assumption" means that the Company agrees to perform its obligations and cure all existing defaults under the contract or lease, and "rejection" means that it is relieved from its obligations to perform further under the contract or lease, but is subject to a pre-petition claim for damages for the breach thereof, subject to certain limitations. Any damages resulting from rejection of executory contracts that are permitted to be recovered under Chapter 11 will be treated as liabilities subject to compromise unless such claims were secured prior to the Petition Date.

In the third and fourth quarters of fiscal 2005, the Company received Court approval to reject leases related to 163 previously closed facilities and other executory contracts of various types. The Company is in the process of reviewing all of its executory contracts and unexpired leases to determine which additional contracts and leases it will reject. The Company's deadline to assume or reject each of its real property leases has been extended for a majority of leases to December 19, 2005. The Company expects that additional liabilities subject to compromise will arise due to rejection of executory contracts, including leases, and from the determination of the Court (or agreement by parties in interest) of allowed claims for contingencies and other disputed amounts. The Company also expects that the assumption of additional executory contracts and unexpired leases will convert certain of the liabilities shown on the accompanying financial statements as subject to compromise to post-petition liabilities. Due to the uncertain nature of many of the potential claims, the Company cannot project the magnitude of such claims with any degree of certainty. The Company has incurred, and will continue to incur, significant costs associated with the reorganization.

The Company filed with the Court schedules that set forth, among other things, the assets and liabilities of the Debtors as of the Petition Date as shown on its books and records, subject to the assumptions contained in certain notes filed in connection therewith. All of the schedules are subject to further amendment or modification. The Court established a general deadline of August 1, 2005 for the filing of proofs of claim.

The Company provided notice of the bar date in accordance with and as required by the Court order. Differences between amounts scheduled by the Debtors and claims filed by creditors will be investigated and resolved in connection with a claims resolution and objection process. This process has commenced, but in light of the number of creditors, the Company expects that it will take considerable time to complete. Accordingly, the ultimate number and amount of allowed claims is not presently known and, because the settlement terms of these claims are subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently estimable.

The Office of the United States Trustee (the "Trustee") appointed an unsecured creditors' committee (the "Committee"). The Committee and its legal representatives have a right to be heard on all matters that come before the Court, including any proposed plan of reorganization. There can be no assurance that the Committee will support the Company's positions in the bankruptcy proceedings or the plan of reorganization once proposed, and disagreements with the Committee could protract the bankruptcy proceedings, could negatively affect its ability to operate during bankruptcy and could delay or prevent its emergence from bankruptcy.

In August 2005, the Trustee also appointed an equity security holders' committee. The Committee has filed a motion to dissolve the equity security holders' committee. A hearing is scheduled for November 16, 2005.

As provided by the Bankruptcy Code, the Debtors have the exclusive right to file a plan of reorganization for 120 days after the Petition Date. On September 8, 2005, the Court approved a second extension of the Debtors' time to file and solicit acceptances of a plan of reorganization to December 19, 2005 and February 20, 2006, respectively. If the Debtors do not file a plan of reorganization and the exclusive period is not further extended, other parties in interest will be permitted to file a plan after December 19, 2005. There can be no assurance that, if requested, the Court will further extend the exclusive period, that a reorganization plan will be filed by the Debtors or confirmed by the Court, or that any such plan will be consummated. After a plan of reorganization has been filed with the Court, the plan, along with a disclosure statement approved by the Court, will be sent to all creditors, equity holders and parties in interest. Following the solicitation period, the Court will consider whether to confirm the plan. In order to confirm a plan of reorganization, the Court must make certain findings as required by the Bankruptcy Code. The Court may confirm a plan of reorganization notwithstanding the non-acceptance of the plan by an impaired class of creditors or equity security holders if certain requirements of the Bankruptcy Code are met.

Under the priority scheme established by the Bankruptcy Code, generally post-petition liabilities and pre-petition liabilities must be satisfied before shareholders are entitled to receive any distribution. The ultimate recovery by creditors and shareholders, if any, will not be determined until confirmation and implementation of a plan of reorganization. No assurance can be given as to what recoveries, if any, will be assigned in the bankruptcy proceedings to each of these constituencies. A plan of reorganization could result in holders of the Company's stock receiving no value for their interests and holders of its unsecured debt receiving less, and potentially substantially less, than payment in full for their claims. Because of such possibilities, the value of the Company's common stock and unsecured debt is highly speculative. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in any of these securities and/or liabilities.

2. Liquidity

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, as a result of the Chapter 11 filing, such realization of assets and liquidation of liabilities are subject to a significant number of uncertainties. Specifically, the consolidated financial statements do not include all of the necessary adjustments to present: (a) the realizable value of assets on a liquidation basis or the availability of such assets to satisfy liabilities, (b) the amount which will ultimately be paid to settle liabilities and contingencies which may be allowed, or (c) the effect of any changes which may be made in connection with the Company's capitalizations or operations as a result of a plan of reorganization. Because of the ongoing nature of the Chapter 11 cases, the discussions and consolidated financial statements contained herein are subject to material uncertainties.

As of June 29, 2005, the Company had $170.7 million of available borrowings under the DIP Credit Facility. There are a number of factors that have negatively impacted the Company's liquidity and may impact the Company's ability to continue as a going concern. These factors include, but are not limited to, the following items. One factor is past operating performance evidenced by, among other items, a net loss in six of the last eight quarters and operating cash usage of $228.1 million in fiscal 2005. A second factor is that the Company is operating as debtors-in-possession under Chapter 11 of the Bankruptcy Code. A third factor was a reduction in liquidity surrounding the Company's Chapter 11 filing due to a disruption in normal vendor relationships, both in terms of a withdrawal of vendor credit and a delay in payment by vendors for accounts receivable, estimated to be approximately $130 million.

Management's 2006 operating plan addresses these concerns by seeking to, among other things, 1) improve operating results through merchandising, retail operating and marketing plans to increase sales and gross margin, shrink reduction and general and administrative expense reductions; 2) submit and seek approval of a plan of reorganization within a reasonable timeframe; and 3) achieve the resumption of vendor credit and accounts receivable collection as a result of the reclamation settlement described below in Note 21 to the Financial Statements. If additional sources of liquidity are needed, such liquidity may come from further sale or closure of additional stores, additional asset sales, further reduction in general and administrative expense, deferral of capital investment, deferral of marketing and other programs, alternative sources of financing and other necessary actions. Long-term liquidity will require either further improvement to operating results, the provision of additional capital and/or a reduction in restructuring and other expense. There can be no assurance that management's plans to provide adequate liquidity described will be successful. The accompanying financial statements do not contain any adjustments that might result if the Company is unable to continue as a going concern.

21 (In Part): Subsequent Events

Restructuring

On June 21, 2005, the Company announced a plan (the "2005 Restructure Plan") to exit, by sale or closure, 326 stores and three distribution centers. This plan will result in the Company exiting all 232 stores in 14 retail designated market areas ("DMAs"), as well as 94 underperforming stores within 23 DMAs in which it will remain. The Company evaluated DMAs primarily on measures of market position, DMA-level cash flows, geographic adjacencies and management's opinion of opportunities to improve performance in the DMA. The Company evaluated individual stores primarily based on store-level cash flow, the quality of the real estate, competitive activity, the impact of its other store closures and management's opinion of opportunities to improve performance at the store. In addition, the Company announced that it was marketing for sale its manufacturing facilities. Though the announcement was made prior to the end of fiscal 2005, Court approval was required before these restructuring activities could be executed.

As of October 20, 2005, the Company has completed the sale of 81 stores. The Court approved sales of these stores' leasehold interests and fixed assets on July 27-29, 2005. Proceeds from completed sales totaled approximately $40.8 million, exclusive of consideration paid for inventory. Inventory liquidation sales were complete and the remaining 245 stores were closed for operation by the end of the first quarter of fiscal 2006. The Company subsequently determined that it will continue to operate its Plant City, Florida and Hammond, Louisiana dairies and its Chek beverage operation in Fitzgerald, Georgia. The Company plans to close the remaining plants and reject the applicable leases. By the end of the first quarter of fiscal 2006, the Company had ceased operations at all three distribution centers and two of the dairies.

The Company is also evaluating all aspects of its field and administrative support organizations to ensure these organizations are appropriate for the planned configuration of its retail business. As the Company reduces its retail store base, it is reviewing its field and administrative support organizations to reduce further its expenses through reengineering the organization, staff reductions and other actions. Approximately 22,000 store and support associates will be impacted by the 2005 Restructure Plan.

Upon completion of the 2005 Restructure Plan as currently outlined, the Company anticipates that it will operate 575 stores across Florida, Alabama, Louisiana, Georgia and Mississippi, and twelve stores in The Bahamas. The Company also plans to operate seven distribution centers in the U.S. and one in The Bahamas to supply the majority of products to these stores.

Net sales related to the 326 stores to be sold or closed totaled $2.5 billion in fiscal 2005. As of June 29, 2005, the net book value of assets related to these stores totaled $29.6 million, primarily equipment. Distribution center assets totaled $14.8 million, consisting primarily of land and a building. Generally, historical operating results related to facilities to be exited under the 2005 Restructure Plan will be reclassified to discontinued operations in the first quarter of fiscal 2006.

The costs of the 2005 Restructure Plan includes lease termination costs, severance, inventory liquidation costs, and other closing costs and is expected to total approximately $450 to $550 million, excluding an expected benefit from LIFO. This total includes approximately $400 to $450 million related to lease termination costs which are expected to be reduced substantially when Court approval for rejection of such leases is obtained.

LACK OF CONSISTENCY

7.27 Table 7-4 summarizes the accounting changes for which auditors expressed unqualified opinions but included explanatory language in their reports as required by paragraphs 16–18 of *SAS No. 58*, as amended by *SAS No. 79*. Of the 213 references to lack of consistency, 141 relate to changes made in years prior to 2005. Examples of references to lack of consistency follow.

7.28

TABLE 7-4: LACK OF CONSISTENCY

	2005	2004	2003	2002
Asset retirement obligations	73	52	54	N/C*
Stock-based compensation	42	35	36	5
Variable interest entities	36	49	30	N/C*
Goodwill not amortized	11	154	358	349
Inventories	10	5	3	9
Financial instruments with liability & equity characteristics	6	10	6	N/C*
Revenue recognition	5	9	9	16
Employee benefits	3	5	N/C*	N/C*
Accounting changes & corrections	3	N/C*	N/C*	N/C*
Exit/disposal activity costs	1	3	4	N/C*
Sales incentives	1	—	5	10
Derivatives	—	6	47	63
Impairment of long-lived assets	—	2	14	17
Early extinguishment of debt	—	2	5	N/C*
Guarantees	—	2	1	N/C*
Business combinations	—	—	4	11
Other—described	22	36	17	34
Total References	**213**	**370**	**593**	**514**
Total Companies	**149**	**239**	**386**	**377**

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

Asset Retirement Obligations

7.29

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Allied Waste Industries, Inc.

We have completed integrated audits of Allied Waste Industries, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Allied Waste Industries, Inc. (the "Company") and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule appearing under item 15 of Part IV of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, in 2005 the Company changed its method of accounting for conditional asset retirement obligations associated with the retirement of long-lived assets and, as discussed in Note 7 to the consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for all other asset retirement obligations.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in management's Report on Internal Control over Financial Reporting appearing under item 9A of Part II of this Form 10-K, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Change in Accounting Principle

The FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143* (FIN 47) in April 2005. The interpretation expands on the accounting guidance of SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), providing clarification of the term "conditional asset retirement obligation" and guidelines for the timing of recording the obligation. We adopted SFAS 143 effective January 1, 2003 (see Note 7). The adoption of FIN 47 as of December 31, 2005 resulted in an increase to our liabilities of approximately $1.3 million and a cumulative effect of change in accounting principle, net of tax, of $0.8 million. This liability represents the fair value of our future obligation to remove underground storage tanks on properties that we own.

7. Landfill Accounting

We have a network of 169 owned or operated active landfills with a net book value of approximately $2.1 billion at December 31, 2005. In addition, we own or have responsibility for 107 closed landfills.

We use a life-cycle accounting method for landfills and the related capping, closure and post-closure liabilities. This method applies the costs to be capitalized associated with acquiring, developing, closing and monitoring the landfills over the associated consumption of landfill capacity. Specifically, we record landfill retirement obligations at fair value as a liability with a corresponding increase to the landfill asset as waste is disposed. The amortizable landfill asset includes landfill development costs incurred, landfill development costs expected to be incurred over the life of the landfill, the recorded capping, closure and post-closure asset retirement obligation and the present value of cost estimates for future capping, closure and post-closure costs. We amortize the landfill asset over the remaining capacity of the landfill as volume is consumed during the life of the landfill with one exception. The exception applies to capping costs for which both the recognition of the liability and the amortization of these costs is based instead on the costs and capacity of the specific capping event.

On an annual basis, we update the development cost estimates (which indude the costs to develop the site as well as the individual cell construction costs) and capping, closure and post-closure cost estimates for each landfill. Additionally, future capacity estimates (sometimes referred to as airspace) are updated annually using aerial surveys of each landfill to estimate utlized disposal capacity and remaining disposal capacity. The overall cost and capacity estimates are reviewed and approved by senior operations management annually.

Change in Accounting Principle

Effective January 1, 2003, we adopted SFAS 143 which outlines standards for accounting for our landfill retirement obligations that have historically been referred to as closure and post-closure. SFAS 143 did not change the basic accounting principles that the waste industry has historically followed for accounting for these types of obligations. In general, the industry has followed the accounting practice of recognizing a liability on the balance sheet and related expense as waste is disposed at the landfill to match operating costs with revenues.

SFAS 143 resulted in a refinement to our industry practices and caused a change in the mechanics of calculating landfill retirement obligations and the classification of where amounts are recorded in the financial statements. Landfill retirement obligations are no longer accrued through a provision to cost of operations, but rather by an increase to landfill assets. Liabilities retained from divested landfills that were historically accounted for in closure and post-closure liabilities were reclassified to other long-term obligations because they were not within the scope of SFAS 143. In addition, in accordance with SFAS 143, we changed the classification of certain costs related to capping, closure and post-closure obligations to other accounts. The most significant change in classification is that we now record the costs for methane gas collection systems in the landfill development assets rather than accrue for those costs as part of the capping or closure liability. Further, the cost of financial assurance instruments are no longer accrued as part of the post-closure liability, but rather are expensed as incurred. Under SFAS 143, each capping event at a landfill is accounted for separately. Previously, the estimated costs of all capping events were included in our landfill closure and post-closure accrual rate.

Upon adoption, SFAS 143 required a cumulative change in accounting for landfill obligations retroactive to the date the landfill operations commenced or the date the asset was acquired. To do this, SFAS 143 required the creation of the related landfill asset, net of accumulated amortization and an adjustment to the capping, closure and post-closure liabilities for cumulative accretion.

At January 1, 2003, we recorded a cumulative effect of a change in accounting principle of a net gain of approximately $29.0 million (net of income tax expense of $19.4 million). In addition, we recorded a decrease in our capping, closure and post-closure liabilities of approximately $100.4 million, an increase in other long-term obligations of approximately $26.9 million, and a decrease in our net landfil assets of approximately $25.1 million.

Following is a summary of the balance sheet changes for landfill assets and capping, closure and post-closure liabilities (in millions):

	Balance at December 31, 2002	Change	Balance at January 1, 2003
Landfill assets	$2,531.3	$ 409.5	$ 2,940.8
Accumulated amortization	(657.8)	(434.6)	(1,092.4)
Net landfill assets	$1,873.5	$ (25.1)	$ 1,848.4
Capping, closure and post-closure liabilities	$ 594.2	$(100.4)	$ 493.8

Landfill Assets

We use the units of production method for purposes of calculating the amortization rate at each landfill. This methodology divides the remaining costs (including any unamortized amounts recorded) associated with acquiring, permitting and developing the entire landfill plus the present value of the total remaining costs for specific capping events, closure and post-closure by the total remaining disposal capacity of that landfill (except for capping costs, which are divided by the total remaining capacity of the specific capping event). The resulting per ton amortization rates are applied to each ton disposed at the landfill and are recorded as expense for that period. We expensed approximately $248.8 million and $256.8 million, or an average of $3.11 and $3.29 per ton consumed, related to landfill amortization during the years ended December 31, 2005 and 2004, respectively. The following is a rollforward of our investment in our landfill assets excluding land held for permitting as landfills (in millions):

Net Book Value at December 31, 2004	Net Book Value of Landfills Acquired, Net of Divestitures	Landfill Development Costs	Capping, Closure and Post-Closure Accruals	Landfill Amortization	Other[1]	Net Book Value at December 31, 2005
$2,089.8	$5.9	$267.4	$10.0	$(248.8)	$14.3	$2,138.6

[a] Relates primarily to amounts transferred from land or land held for permitting as landfills to landfill (for projects that have met the criteria for probable expansion during 2005).

Costs associated with developing the landfill include direct costs such as excavation, liners, leachate collection systems, methane gas collection system installation, engineering and legal fees, and capitalized interest. Estimated total future development costs for our 169 active landfills at December 31, 2005 was approximately $4.5 billion, excluding capitalized interest, and we expect that this amount will be spent over the remaining operating lives of the landfills.

We classify disposal capacity as either permitted (having received the final permit from the governing authorities) or probable expansion. Probable expansion disposal capacity has not yet received final approval from the regulatory agencies, but we have determined that certain critical criteria have been met and the successful completion of the expansion is highly probable. Our requirements to classify disposal capacity as probable expansion are as follows:

1. We have control of and access to the land where the expansion permit is being sought.
2. All geologic and other technical siting criteria for a landfill have been met, or a variance from such requirements has been received (or can reasonably be expected to be received).
3. The political process has been assessed and there are no identified impediments that cannot be resolved.
4. We are actively pursuing the expansion permit and have an expectation that the final local, state and federal permits will be received within the next five years.
5. Senior operations management approval has been obtained.

Upon successfully meeting the preceding criteria, the costs associated with developing, constructing, closing and monitoring the total additional future disposal capacity are considered in the life-cycle cost of the landfill and reflected in the calculation of the amortization rate and the rate at which capping, closure and post-closure is accrued.

We, together with our engineering and legal consultants, continually monitor the progress of obtaining local, state and federal approval for each of our expansion permits. If it is determined that the expansion no longer meets our criteria then (a) the disposal capacity is removed from our total available disposal capacity; (b) the costs to develop that disposal capacity and the associated capping, closure and post-closure costs are removed from the landfill amortization base; and (c) rates are adjusted prospectively. In addition, any value assigned to probable expansion capacity is written-off to expense during the period in which it is determined that the criteria are no longer met.

Capping, Closure and Post-Closure

In addition to our portfolio of 169 active landfills, we own or have responsibility for 107 closed landfills no longer accepting waste. As individual areas within each landfill reach capacity, we are required to cap and close the areas in accordance with the landfill site permit. Generally, capping activities include the installation of compacted clay, geosynthetic liners, drainage channels, compacted soil layers and vegetative soil barriers over areas of a landfill where total airspace has been consumed and waste is no longer being received. Capping activities occur throughout the life of the landfill.

Closure costs are those costs incurred after a landfill site stops receiving waste, but prior to being certified as closed. After the entire landfill site has reached capacity and is closed, we are required to maintain and monitor the site for a post-closure period, which generally extends for a period of 30 years. Post-closure requirements include maintenance and operational costs of the site and monitoring the methane gas collection systems and groundwater systems, among other post-closure activities. Estimated costs for capping, closure and post-closure as required under Subtitle D regulations are compiled and updated annually for each landfill by local and regional company engineers. The following table is a summary of the capping, closure and post-closure costs at December 31, 2005 (in millions):

Discounted capping, closure and post-closure liability recorded:	
Current portion	$ 72.8
Non-current portion	547.0
Total	$ 619.8
Estimated remaining capping, closure and post-closure costs to be expended:	
2006	$ 72.8
2007	71.4
2008	67.2
2009	73.8
2010	58.9
Thereafter	3,147.2
Estimated remaining undiscounted capping, closure and post-closure costs to be expended	$3,491.3
Estimated remaining discounted capping, closure and post-closure costs to be expended	$1,058.2

Total remaining discounted costs to be expended include the recorded liability on our balance sheet as well as amounts expected to be recorded in future periods as disposal capacity is consumed.

SFAS 143 requires landfill obligations to be recorded at fair value. Quoted market prices in active markets is the best evidence of fair value. Since quoted market prices for landfill retirement obligations are not available to determine fair value, we use discounted cash flows of capping, closure and post-closure cost estimates to approximate fair value. The cost estimates are prepared by our local management and third-party engineers based on the applicable local, state and federal regulations and site specific permit requirements and are intended to approximate fair value.

Capping, closure and post-closure costs are estimated for the period of performance utilizing estimates a third-party would charge (including profit margins) to perform those activities in full compliance with Subtitle D. If we perform the capping, closure and post-closure activities internally, the difference between amounts accrued, based upon third-party cost estimates (including profit margins) and our actual cost incurred is recognized as a component of cost of operations in the period earned. An estimate of fair value should include the price that marketplace participants are able to receive for bearing the uncertainties in cash flows. However, when utilizing discounted cash flows, reliable estimates of market risk premiums may not be obtainable. In our industry, there is no market that exists for selling the responsibility for capping, closure and post-closure independent of selling the entire landfill. Accordingly, we believe that it is not possible to develop a methodology to reliably estimate a market risk premium and have excluded a market risk premium from our determination of expected cash flows for capping, closure and post-closure liability. Our cost estimates are inflated to the period of performance using an estimate of inflation that is updated annually. We used an estimate of 2.5% in both 2005 and 2004.

We discounted our capping, closure and post-closure costs using our credit-adjusted, risk-free rate. Capping, closure and post-closure liabilities are recorded in layers and discounted using the credit-adjusted risk-free rate in effect at the time the obligation is incurred (8.75% in 2005 and 7.5% in 2004). The credit-adjusted, risk-free rate is based on the risk-free interest rate on obligations of similar maturity adjusted for our own credit rating. Changes in our credit-adjusted, risk-free rate do not change recorded liabilities, but subsequently recognized obligations are measured using the revised credit-adjusted, risk-free rate.

Accretion expense is necessary to increase the accrued capping, closure and post-closure accrual balance to its future undiscounted value. To accomplish this, we accrete our capping, closure and post-closure accrual balance using the applicable credit-adjusted, risk-free rate and charge this accretion as an operating expense in that period. Accretion expense on recorded landfill liabilities is recorded to cost of operations from the time the liability is recognized until the costs are paid.

Accretion expense for capping, closure and post-closure for the years ended December 31, 2005 and 2004 was $50.3 million and $48.0 million, respectively, or an average of $0.63 and $0.61 per ton consumed, respectively.

Changes in estimates of costs or disposal capacity are treated on a prospective basis for operating landfills and are recorded immediately in results of operations for fully incurred capping events and closed landfills.

Landfill Maintenance Costs

Daily maintenance costs incurred during the operating life of the landfill are expensed to cost of operations as incurred. Daily maintenance costs incurred leachate treatment and disposal, methane gas and groundwater system monitoring and maintenance, interim cap maintenance, environmental monitoring and costs associated with the application of daily cover materials.

Financial Assurance Costs

Costs of financial assurances related to our capping, closure and post-closure obligations for open and closed landfills are expensed to cost of operations as incurred.

Environmental Costs

Environmental liabilities arise from contamination at sites that we own or operate or third-party sites where we deliver or transport waste. These liabilities primarily include costs associated with remediating groundwater, surface water and soil contamination as well as controlling and containing methane gas migration. We engage third-party environmental consulting firms to assist us in conducting environmental assessments of existing landfills or other properties, and in connection with companies acquired from third parties.

We cannot determine with precision the ultimate amounts for environmental liabilities. We make estimates of our potential liabilities in consultation with our third-party environmental engineers and legal counsel. These estimates require assumptions about future events due to a number of uncertainties including the extent of the contamination, the appropriate remedy, the financial viability of other potentially responsible parties and the final apportionment of responsibility among the potentially responsible parties. Where we have concluded that our estimated share of potential liabilities is probable, a provision has been made in the consolidated financial statements.

Our ultimate liabilities for environmental matters may differ from the estimates determined in our assessment to date. We have determined that the recorded undiscounted liability for environmental matters as of December 31, 2005 and 2004 of approximately $272.8 million and $304.8 million, respectively, represents the most probable outcome of these contingent matters. In connection with evaluating liabilities for environmental matters, we estimate a range of potential impacts and the most likely outcome. The recorded liabilities represent our estimate of the most likely outcome of the matters for which we have determined liability is probable. For these matters, we periodically evaluate the recorded liabilities and as additional information becomes available to ascertain whether the accrued liabilities are adequate. We do not expect near-term adjustments to estimates will have a material effect on our consolidated liquidity, financial position or results of operations. Using the high end of our estimate of the reasonably possible range, the outcome of these matters, which exclude capping, closure and post-closure costs, could result in approximately $23 million of additional liability. We do not reduce our estimated obligations for proceeds from other potentially responsible parties or insurance companies. If receipt is probable, the expected amount of proceeds are recorded as an offset to environmental expense in operating income and a receivable is recorded in the periods when that determination is made. There were no significant recovery receivables outstanding as of December 31, 2005 or 2004.

The following table shows the activity and balances related to environmental accruals and for capping, closure and post-closure accruals related to open and closed landfills from December 31, 2002 through December 31, 2005 (in millions):

	Balance at 12/31/02	Charges to Expense	Other Charges[1]	Payments	Balance at 12/31/03
Environmental accruals	$365.1	$ —	$ (2.8)	$(24.9)	$337.4
Open landfills capping, closure and post-closure accruals	336.2	28.0	31.3	(19.1)	376.4
Closed landfills capping, closure and post-closure accruals	258.0	16.3	(71.7)	(31.1)	171.5
Total	$959.3	$44.3	$(43.2)	$(75.1)	$885.3
	Balance at 12/31/03	**Charges to Expense**	**Other Charges[1]**	**Payments**	**Balance at 12/31/04**
Environmental accruals	$337.4	$ —	$ (0.8)	$(31.8)	$304.8
Open landfills capping, closure and post-closure accruals	376.4	32.6	31.4	(29.8)	410.6
Closed landfills capping, closure and post-closure accruals	171.5	15.4	60.5	(28.8)	218.6
Total	$885.3	$48.0	$ 91.1	$(90.4)	$934.0
	Balance at 12/31/04	**Charges to Expense**	**Other Charges[1]**	**Payments**	**Balance at 12/31/05**
Environmental accruals	$304.8	$ —	$ (0.6)	$(31.4)	$272.8
Open landfills capping, closure and post-closure accruals	410.6	34.2	8.1	(33.1)	419.8
Closed landfills capping, closure and post-closure accruals	218.6	16.1	(7.8)	(26.9)	200.0
Total	$934.0	$50.3	$ (0.3)	$(91.4)	$892.6

[1] Amounts consist primarily of liabilities related to acquired and divested companies, and the cumulative effect of change in accounting principle related to the adoption of SFAS 143 (2003 only) and additions of and adjustments to capping, closure and post-closure liabilities recorded to landfill assets during the period. In 2003 and prior years, liabilities and receivables associated with two closed landfills capping, closure and post-closure obligations that were insured or funded in state regulated trusts were reported as a net value. During 2005 and 2004, both the receivable and the liability are separately stated.

7.30

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Molson Coors Brewing Company

We have completed integrated audits of Molson Coors Brewing Company's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 25, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Molson Coors Brewing Company and its subsidiaries (the "Company") at December 25, 2005 and December 26, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the notes to the consolidated financial statements, effective December 25, 2005, the Company adopted the provisions of Financial Accounting Standard Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143."

Internal Control Over Financial Reporting

Also, we have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that the Company did not maintain effective internal control over financial reporting as of December 25, 2005 because the Company did not maintain effective controls over the completeness and accuracy of the income tax provision and related balance sheet accounts, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. As of December 25, 2005, the Company did not maintain effective controls over the completeness and accuracy of the income tax provision and related balance sheet accounts. Specifically, the Company's controls over the processes and procedures related to the determination and review of the quarterly and annual tax provisions were not adequate to ensure that the income tax provision was prepared in accordance with generally accepted accounting principles. This control deficiency resulted in the restatement of the first quarter of 2005 as well as audit adjustments to the annual 2005 consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the income tax provision and related balance sheet accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, the Company determined that this control deficiency constitutes a material weakness. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded its

Molson Canada and Kaiser Brazil business units from its assessment of internal control over financial reporting as of December 25, 2005 because these business units were acquired by the Company in a purchase business combination during 2005. We have also excluded the Molson Canada and Kaiser Brazil business units from our audit of internal control over financial reporting. Molson Canada is a wholly-owned subsidiary whose total assets and total revenues represent 50% and 28%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 25, 2005. The Kaiser Brazil business unit is presented as a discontinued operation in the accompanying financial statements due to the sale of the business unit in January 2006 and whose total assets represent five percent of the consolidated financial statement amount as of December 25, 2005.

In our opinion, management's assessment that Molson Coors Brewing Company did not maintain effective internal control over financial reporting as of December 25, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Molson Coors Brewing Company has not maintained effective internal control over financial reporting as of December 25, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Adoption of New Accounting Pronouncement

FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143"

In March 2005, the FASB issued *FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143,"* ("FIN 47") which clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143, *"Accounting for Asset Retirement Obligations."* ("SFAS No. 143") Specifically, FIN 47 provides that an asset retirement obligation is conditional when either the timing and (or) method of settling the obligation is conditioned on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair market value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists.

We adopted FIN 47 on December 25, 2005, which resulted in an increase to properties of $0.5 million, goodwill of $2.2 million and liabilities of $9.6 million related to asset retirement obligations. For asset retirement obligations related to the properties acquired in the acquisition of Molson Inc. as of February 9, 2005, such obligations increased the goodwill amounts recognized upon the acquisition by $2.2 million as such properties were recorded at the appraised fair market value at the acquisition date. These asset retirement obligations relate primarily to clean-up, removal, or replacement activities and related costs for asbestos, coolants, waste water, oils and other contaminants contained within our manufacturing properties.

The adoption of FIN 47 was reflected in our financial statements as the cumulative effect of the change in accounting principle with the catch up adjustment of $3.7 million, net of tax benefit of $2.2 million, in the 2005 statement of income. This adjustment represents a depreciation charge and an accretion of liability from the time the obligation originated, which is either from the time of the acquisition or the construction of related long-lived assets, through December 25, 2005.

Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment will be made to the asset balance. If the obligation is settled for other than the carrying amount of the liability, we will recognize a gain or loss upon the settlement. The net value of the asset retirement obligation liabilities calculated on a pro-forma basis as if the standard had been retrospectively applied to all periods presented are as follows:

December 25, 2005	December 26, 2004	December 28, 2003
$9,628,580	$5,926,852	$5,487,826

Stock-Based Compensation

7.31

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Harley-Davidson, Inc.

We have audited the accompanying consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harley-Davidson, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for cach of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, on January 1, 2005, the Company changed its method of accounting for share based awards.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Harley-Davidson, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2006 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock Compensations Costs

On January 1, 2005 the Company early adopted SFAS No. 123 (revised 2004), "Share-Based Payment," which requires the Company to recognize the cost of its employee stock option awards in its income statement. According to SFAS No. 123 (revised 2004), the total cost of the Company's share-based awards is equal to their grant date fair value and is recognized as expense on a straight-line basis over the service periods of the awards. The Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004) using the modified prospective-transition method. Under that transition method, compensation cost recognized in 2005 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and (b) compensation cost for all share-based payments granted subsequent to January 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (revised 2004). Results for prior periods have not been restated. Total stock compensation expense recognized by the Company during 2005, including stock option and nonvested stock awards, was $23.0 million, or $14.5 million net of taxes.

As a result of adopting SFAS No. 123 (revised 2004) on January 1, 2005, the Company's income before income taxes and net income for 2005 were $21.1 million and $13.0 million lower, respectively, than if it had continued to account for stock option awards under APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Basic and diluted earnings per share for 2005 would have been $3.47 and $3.46, respectively, if the Company had not adopted SFAS No. 123 (revised 2004), compared to reported basic and diluted earnings per share of $3.42 and $3.41, respectively. Prior to the adoption of SFAS No. 123 (revised 2004), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Beginning on January 1, 2005 the Company changed its cash flow presentation in accordance with SFAS No. 123 (revised 2004) which requires the cash flows of the realized tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The $6.1 million excess tax benefit classified as a financing cash inflow in 2005 would have been classified as an operating cash inflow if the Company had not adopted SFAS No. 123 (revised 2004).

Prior to January 1, 2005, the Company accounted for its stock option plans under the recognition and measurement provisions of APB Opinion No. 25 and related Interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." No stock option-based employee compensation cost was recognized in the income statement prior to 2005, as all stock options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company estimated the fair value of its option awards granted prior to January 1, 2005 using the Black-Scholes option-pricing formula. The Black-Scholes option pricing model was used with the following weighted-average assumptions for grants made in the following years:

	2004	2003
Fair value of options granted during the period	$ 17	$ 14
Expected term (in years)	4.9	4.7
Expected volatility	34%	36%
Expected dividend yield	0.6%	0.3%
Risk free rate	3.2%	2.7%

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock options during the years ended December 31, 2004 and 2003. For purposes of this pro forma disclosure, the value of the options is amortized to expense on a straight-line basis over a four-year vesting period and forfeitures are recognized as they occur. The Company's pro forma information follows:

(In thousands, except per-share amounts)	2004	2003
Net income, as reported	$889,766	$760,928
Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	(13,932)	(13,415)
Pro forma net income	$875,834	$747,513
Basic earnings per share as reported	$ 3.02	$ 2.52
Basic earnings per share pro forma	$ 2.97	$ 2.47
Diluted earnings per share as reported	$ 3.00	$ 2.50
Diluted earnings per share pro forma	$ 2.96	$ 2.46

9. Stock Compensation

The Company has a stock compensation plan which was approved by its Shareholders in April 2004 (Plan) under which the Board of Directors may grant to employees nonqualified stock options and shares of nonvested stock. The options granted under the Plan have an exercise price equal to the fair market value of the underlying stock at the date of grant and vest ratably over a four-year period with the first 25% becoming exercisable one year after the date of grant. The options expire 10 years from the date of grant. Shares of nonvested stock that have been issued under the Plan generally vest over periods ranging from 4 to 5 years with certain of the shares generally subject to accelerated vesting should the Company meet certain performance conditions. Dividends are paid on shares of nonvested stock. At December 31, 2005, there were 12.5 million shares of common stock available for future awards under the Plan.

Stock Options

As discussed in Note 1, the Company adopted SFAS No. 123 (revised 2004) on January 1, 2005, which requires the Company to recognize the cost of its employee stock option awards in its income statement based on the fair value of the award. The Company estimates the fair value of its option awards granted after January 1, 2005, using a lattice-based option valuation model. The Company believes that the lattice-based option valuation model provides a more precise estimate of fair value than the Black-Scholes option pricing model used in prior years. Lattice-based option valuation models utilize ranges of assumptions over the expected term of the options. Expected volatilities are based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S.Treasury yield curve in effect at the time of grant. Assumptions used in calculating the lattice-based fair value of options granted during 2005 were as follows:

	2005
Expected average term (in years)	4.5
Expected volatility	16%–36%
Weighted-average volatility	30%
Expected dividend yield	0.8%
Risk-free rate	2.4%–4.1%

The following table summarizes the stock option transactions for the years ended December 31:

	2005		2004		2003	
(In thousands except for per share amounts)	Options	Weighted-Average Price	Options	Weighted-Average Price	Options	Weighted-Average Price
Options outstanding at January 1	6,895	$41	9,029	$31	8,683	$27
Options granted	905	$60	1,419	$52	1,652	$41
Options exercised	(938)	$33	(3,418)	$18	(1,191)	$16
Options forfeited	(77)	$51	(135)	$47	(115)	$44
Options outstanding at December 31	6,785	$45	6,895	$41	9,029	$31
Exercisable at December 31	4,159	$40	3,482	$35	5,561	$23
Weighted-average fair value of options granted during the year	$ 16		$ 17		$ 14	

The following table summarizes the aggregate intrinsic value related to options outstanding, exercisable and exercised as of and for the years ended December 31:

(In thousands)	2005	2004	2003
Exercised	$23,355	$135,752	$ 34,057
Outstanding	$47,564	$135,652	$151,290
Exercisable	$47,594	$ 94,974	$137,393

The Company's policy is to issue new shares of common stock upon the exercise of employee stock options. The Company has a continuing authorization from its Board of Directors to repurchase shares to offset dilution caused by the exercise of stock options.

Stock options outstanding at December 31, 2005 (options in thousands):

Price Range	Weighted-Average Contractual Life	Options	Weighted-Average Exercise Price
$9	0.1	31	$ 9
$10.01 to $20	1.9	317	13
$20.01 to $30	3.2	413	26
$30.01 to $40	4.3	709	35
$40.01 to $50	6.5	2,194	42
$50.01 to $60	7.3	2,330	52
$60.01 to $70	9.1	791	61
Options outstanding	6.3	6,785	45
Options exercisable	5.3	4,159	40

Nonvested Stock

The fair value of nonvested shares is determined based on the market price of the Company's shares on the grant date. A summary of the status of the Company's nonvested shares as of December 31, 2005, and changes during the year ended December 31, 2005, is as follows:

(Shares in thousands)	Shares	Fair Value per Share
Nonvested at January 1	—	—
Granted	115	$60
Vested	—	—
Forfeited	(3)	$60
Nonvested at December 31	112	$60

As of December 31, 2005, there was $4.2 million of unrecognized compensation cost related to nonvested stock that is expected to be recognized over a weighted-average period of 3.1 years.

7.32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Meredith Corporation

We have audited the accompanying consolidated balance sheets of Meredith Corporation and subsidiaries (the Company) as of June 30, 2005 and 2004, and the related consolidated statements of earnings (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2005. In connection with our audits of the aforementioned financial statements, we also audited the related financial statement schedule (as listed in Part IV, Item 15 (a) 2 herein). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meredith Corporation and subsidiaries as of June 30, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, on October 1, 2004. Consequently, the Company's consolidated balance sheet as of June 30, 2004 and the related consolidated statements of earnings (loss), shareholders' equity, and cash flows for the years ended June 30, 2004 and 2003 have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 8, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

n. Share-Based Compensation

The Company has several share-based compensation plans which are more fully described in Note 15. In December 2004, the Financial Accounting Standards Board issued SFAS 123R, *Share-Based Payment*. This Statement requires, with limited exceptions, public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. SFAS 123R also requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Meredith elected to adopt this Statement effective October 1, 2004 in advance of the Company's required adoption date of July 1, 2005. Previously, Meredith valued share-based payments by the intrinsic value method in its consolidated financial statements while providing pro forma disclosure of fair-value-based expense. SFAS 123R provides various transition methods. Meredith used the modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under previous accounting standards. See Note 2 for details of the restatements.

2. Restatement of Fiscal 2004 and 2003 Consolidated Financial Statements

As discussed more fully in Notes 1 and 3, Meredith adopted SFAS 123R effective October 1, 2004 using the modified version of the retrospective application under which financial results for prior periods are adjusted. The adoption resulted in the restatement of the financial statements as of and for the years ended June 30, 2004 and 2003 presented in this Annual Report on Form 10-K. SFAS 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as previously required. This requirement resulted in a reduction in net operating cash flows and an increase in net financing cash flows. The following is a summary of the adjustments to the financial statements as a result of the adoption of SFAS 123R:

	2004	
(In thousands)	As Previously Reported	As Restated
Selected balance sheet data		
Liabilities and shareholders' equity		
Accrued expenses		
Other taxes and expenses	$ 33,074	$ 32,863
Total accrued expenses	101,159	100,948
Total current liabilities	370,961	370,750
Deferred income taxes	97,858	76,828
Total liabilities	877,197	855,956
Additional paid-in capital	5,726	66,229
Retained earnings	535,070	495,808
Total shareholders' equity	588,730	609,971

	2004		2003	
(In thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated
Selected statement of earnings (loss) data				
Selling, general and administrative expenses	$ 420,801	$431,824	$406,578	$417,031
Total operating costs and expenses	958,538	969,561	907,682	918,135
Income from operations	203,114	192,091	172,422	161,969
Earnings before income taxes and cumulative effect of change in accounting principle	180,613	169,590	143,662	133,209
Income taxes	69,897	65,631	55,596	51,551
Earnings before cumulative effect of change in accounting principle	110,716	103,959	88,066	81,658
Net earnings (loss)	110,716	103,959	2,317	(4,091)
Basic earnings (loss) per share				
Before cumulative effect of change in accounting principle	2.20	2.07	1.78	1.64
Cumulative effect of change in accounting principle	—	—	(1.73)	(1 72)
Basic earnings (loss) per share	2.20	2.07	0.05	(0.08)
Diluted earnings (loss) per share				
Before cumulative effect of change in accounting principle	2.14	2.00	1.73	1.59
Cumulative effect of change in accounting principle	—	—	(1.68)	(1.67)
Diluted earnings (loss) per share	2.14	2.00	0.05	(0.08)
Average number of diluted shares outstanding	51,689	51,926	51,093	51,276
Selected statement of cash flows data				
Net earnings (loss)	110,716	103,959	2,317	(4,091)
Share-based compensation	—	12,193	—	11,327
Deferred income taxes	29,076	27,959	43,588	41,447
Excess tax benefits from share-based payments (cash flows from operations)	—	(8,011)	—	(11,904)
Accruals	19,177	16,028	5,696	3,791
Other noncurrent liabilities	1,213	43	722	(151)
Net cash provided by operating activities	171,036	163,025	172,355	160,451
Excess tax benefits from share-based payments (cash flows from financing activities)	—	8,011	—	11,904
Net cash used by financing activities	(107,709)	(99,698)	(37,421)	(25,517)

3 (In Part): Changes in Accounting Principles

Meredith adopted SFAS 123R effective October 1, 2004. This Statement, with limited exceptions, requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Previously, Meredith valued share-based payments by the intrinsic value method in its consolidated financial statements while providing pro forma disclosure of fair-value-based expense. SFAS 123R provides various transition methods. Meredith used the modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under previous accounting standards. See Note 2 for details of the restatements.

SFAS 123R requires entities to estimate the number of expected forfeitures to occur and record expense based on the number of awards expected to vest. Prior to adoption of SFAS 123R, Meredith accounted for forfeitures as they occurred as permitted under previous accounting standards. As a result, in the second quarter of fiscal 2005, the Company recorded the cumulative effect of a change in accounting principle of $1.5 million ($0.9 million after tax), or $0.02 per share, to reduce compensation expense recognized in previous periods for the estimated forfeitures of outstanding awards.

The effect on current-period results of adopting SFAS 123R was as follows:

(In thousands except per share data)	Increase (Decrease)
Earnings before income taxes and cumulative effect of change in accounting principle	$(10,658)
Earnings before cumulative effect of change in accounting principle	(6,533)
Net earnings	(5,640)
Basic earnings per share	
Before cumulative effect of change in accounting principle	(0.13)
Net earnings	(0.11)
Diluted earnings per share	
Before cumulative effect of change in accounting principle	(0.13)
Net earnings	(0.11)
Cash flows from operations	(3,288)
Cash flows from financing	3,288

15. Common Stock and Stock Option Plans

On June 30, 2005, Meredith had an employee stock purchase plan and several stock incentive plans, all of which are shareholder approved. A more detailed description of these plans follows. Compensation expense recognized for these plans was $11.7 million (before the favorable pretax adjustment for the cumulative effect of the change in accounting principle of $1.5 million) in fiscal 2005, $12.2 million in fiscal 2004 and $11.3 million in fiscal 2003. The total income tax benefit recognized in earnings before the cumulative effect of the change in accounting principle for share-based payment arrangements was $4.5 million in fiscal 2005, $4.7 million in fiscal 2004 and $4.4 million in fiscal 2003.

Employee Stock Purchase Plan

Meredith has an employee stock purchase plan (ESPP) available to substantially all employees. The ESPP allows employees to purchase shares of Meredith common stock through payroll deductions at the lesser of 85 percent of the fair market value of the stock on either the first or last trading day of an offering period. The ESPP has quarterly offering periods. Shareholders authorized 500,000 common shares for issuance under the ESPP. Compensation cost for the ESPP is based on the present value of the cash discount and the fair value of the call option component as of the grant date using a Black-Scholes option pricing model. The term of the option is 3 months, the term of the offering period. The expected stock price volatility was approximately 14 percent in the fiscal 2005 and 2004, and 25 percent in fiscal 2003. Information about the shares issued under this plan follows:

(In thousands except per share)	2005	2004	2003
Shares issued	52	43	32
Average fair value	$ 8.14	$ 7.47	$ 7.28
Average purchase price	41.75	40.90	32.37
Average market price	49.64	50.24	41.04

Stock Incentive Plans

Meredith has 5 stock incentive plans (the Plans) that permit the Company to issue up to 16.1 million shares in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and performance cash awards to key employees and directors of the Company. Awards related to approximately 12.4 million shares have been made under these plans as of June 30, 2005. The Plans are designed to provide incentive to contribute to the achievement of long-range corporate goals; provide flexibility in motivating, attracting and retaining employees; and, to better align the interests of employees with those of the shareholders.

The Company has awarded restricted shares of common stock to eligible key employees and to nonemployee directors under the Plans. In addition, certain awards are granted based on specified levels of Company stock ownership. All awards have restriction periods tied primarily to employment and/or service. The awards generally vest over three or five years. The awards are recorded at the market value of traded shares on the date of the grant as unearned compensation. The initial values of the grants, net of estimated forfeitures, are amortized over the vesting periods. The Company's restricted stock activity during the year ended June 30, 2005 follows:

(In thousands except per share)	Shares	Weighted-Average Grant Date Fair Value
Restricted stock		
Nonvested at July 1, 2004	86	$42.01
Granted	24	49.25
Vested	(17)	38.83
Forfeited	(10)	43.21
Nonvested at June 30, 2005	83	44.56

As of June 30, 2005, there was $1.9 million of unearned compensation cost related to the restricted stock granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.1 years. The weighted-average grant date fair value of restricted stock granted during the years ended June 30, 2005, 2004 and 2003 was $49.25, $48.61 and $42.71, respectively. The total fair value of shares vested during the years ended June 30, 2005, 2004 and 2003 was $0.8 million, $2.1 million and $1.9 million, respectively.

Meredith also has outstanding restricted stock units and stock equivalent units (stock units) that were sold to employees and directors through various deferred compensation plans. The period of deferral is specified when the deferral election is made. These stock units are sold at the market price of the underlying stock on the date of sale. In addition, shares of restricted stock may be converted to stock units upon vesting. The following summarizes the activity for stock units during the year ended June 30, 2005:

(In thousands except per share)	Units	Weighted-Average Sale Date Fair Value
Stock units		
Balance at July 1, 2004	142	$28.83
Additions	11	44.41
Converted to common stock	(4)	35.81
Balance at June 30, 2005	149	29.81

The aggregate intrinsic value of the stock units outstanding at June 30, 2005 was $2.9 million. The total intrinsic value of the stock units converted to common stock in the years ended June 30, 2005, 2004 and 2003 was $236 thousand, $26 thousand and $12 thousand, respectively.

Meredith also has granted nonqualified stock options to certain employees and directors under the Plans. Options are granted at prices not less than the market price of the underlying stock on the date of grant. All options granted under the Plans expire at the end of 10 years. Most of the options granted in fiscal 2004 and 2005 vest three years from the date of grant. Most of the options granted prior to fiscal 2004 vest one-third each year over a three-year period. The Company elected to recognize the expense associated with the graded vesting options on a straight-line basis for each, separately vesting portion of the award as if the award were, in substance, multiple awards. Meredith also occasionally has granted options tied to attaining specified earnings per share and/or return on equity goals for the subsequent three-year period. Attaining these goals results in the acceleration of vesting for all, or a portion of, the options to three years from the date of grant. Options not subject to accelerated vesting vest eight years from the date of grant, subject to certain tenure qualifications.

A summary of stock option activity and weighted average exercise prices follows:

	Options (in 000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000)
Outstanding July 1, 2004	6,322	$34.98		
Granted	939	50.07		
Exercised	(705)	29.40		
Forfeited	(388)	44.25		
Outstanding June 30, 2005	6,168	37.33	5.59 years	$74,380
Exercisable June 30, 2005	3,691	$32.27	3.98 years	$63,494

The fair value of each option is estimated as of the date of grant using a Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's stock and other factors. The expected life of options granted incorporates historical employee exercise and termination behavior. Different expected lives are used for separate groups of employees that have similar historical exercise patterns. The risk-free rate for periods that coincide with the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of grant. The following summarizes the assumptions used in determining the fair value of options granted:

	2005	2004	2003
Risk-free interest rate	3.3–4.0%	3.3–4.2%	3.2–4.0%
Expected dividend yield	0.90%	0.90%	0.75%
Expected option life	4–7yrs	4–7yrs	5–8yrs
Expected stock price volatility	19–23%	23%	25%
Weighted-average stock price volatility	22%	23%	25%

The weighted-average grant date fair value of options granted during the years ended June 30, 2005, 2004 and 2003 was $13.27, $13.49 and $11.98, respectively. The total intrinsic value of options exercised during the years ended June 30, 2005, 2004 and 2003 was $15.0 million, $27.7 million and $34.9 million, respectively. As of June 30, 2005 there was $14.4 million in unrecognized compensation cost for stock options granted under the Plans. This cost is expected to be recognized over a weighted-average period of 1.7 years.

Cash received from option exercises under all share-based payment plans for the years ended June 30, 2005, 2004 and 2003 was $20.7 million, $24.5 million and $21.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $5.9 million, $10.8 million and $13.6 million, respectively for the years ended June 30, 2005, 2004 and 2003.

Meredith expects, from year to year, to repurchase a sufficient number of shares of stock to approximate or exceed the number of options granted annually.

Variable Interest Entities

7.33

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Airgas, Inc.

We have audited the consolidated financial statements of Airgas, Inc. and subsidiaries (the "Company") as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Airgas, Inc. and subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 13, 2005, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for variable interest entities effective December 31, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

b (In Part): Basis of Presentation

The consolidated financial statements include the accounts of Airgas, Inc. and subsidiaries, as well as the Company's consolidated affiliate, National Welders Supply Company, Inc. ("National Welders") (see Notes 2 and 16). Intercompany accounts and transactions, including those between the Company and National Welders, are eliminated in consolidation.

2 (In Part): Accounting and Disclosure Changes

FASB Financial Interpretation No. 46

In January 2003, the FASB issued Financial Interpretation No. 46, *Consolidation of Variable Interest Entities*, ("FIN 46"). The interpretation was initially effective for the first interim period beginning after June 15, 2003. However, as a result of implementation issues, in December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, ("FIN 46R"), which was effective as of the end of the first reporting period ending after March 15, 2004, with early adoption permitted.

FIN 46 and FIN 46R address consolidation by a business enterprise of variable interest entities. Variable interest entities are defined as corporations, partnerships, trusts, or any other legal structure used for business purposes, and by design, the holders of equity instruments in those entities lack one of the characteristics of a financial controlling interest. FIN 46 and FIN 46R change previous accounting practice by introducing the concept of a "Primary Beneficiary" and require variable interest entities to be consolidated by the party deemed to be the Primary Beneficiary (i.e., the party that is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both). Under previous accounting practice, entities generally were not consolidated unless the entity was controlled through voting interests.

Since October 1999, the Company has leased certain real estate and equipment from a grantor trust (the "Trust") under a sale-leaseback arrangement. The Trust incurred debt to purchase the properties and equipment from the Company. The Company, in turn, paid rent to the Trust. Effective July 1, 2003, the Company elected to early adopt FIN 46 with respect to the Trust. The Company determined the Trust to be a variable interest entity as defined by FIN 46. In addition, the

Company was determined to be the Primary Beneficiary of the sale-leaseback arrangement. FIN 46 required the Company to consolidate the Trust for financial reporting purposes. Upon maturity of the sale-leaseback arrangement in October 2004, the Company used funds from its revolving credit facilities to refinance its $41 million debt obligation to the Trust.

Since June 1996, the Company has participated in a joint venture with National Welders, a producer and distributor of industrial gases based in Charlotte, North Carolina. The Company determined that National Welders meets the definition of a "Variable Interest Entity" under FIN 46R and that the Company is the Primary Beneficiary of the joint venture. Therefore, effective December 31, 2003, the Company elected to adopt FIN 46R, as it applies to the joint venture, and consolidated National Welders. As permitted by FIN 46R, the Company applied the interpretation prospectively from the date of adoption. Therefore, at December 31, 2003, the consolidation of National Welders only affected the balance sheet. There was no cumulative effect adjustment or impact on cash flows as a result of the consolidation. The consolidation had the effect of eliminating the Company's $62 million investment in National Welders and recording the joint venture's assets, liabilities and a corresponding minority interest liability.

Beginning January 1, 2004, National Welders' operating results were no longer reflected as "Equity in Earnings of Unconsolidated Affiliates." Rather, the operating results were reflected broadly across the income statement with minority interest expense representing the quarterly dividend on the joint venture's redeemable preferred stock, net of interest earned on a note receivable from the preferred stockholders. The joint venture is structured such that the Company earns the residual net income available to the common stockholder, which is net of the minority interest expense. Since the allocation of the joint venture's net earnings was unaffected by the adoption of FIN 46R, the consolidation of National Welders did not impact the Company's net earnings. See Note 16 for additional disclosures regarding National Welders.

16) Consolidated Affiliate and Minority Interest

In fiscal 2004, the Company determined that its joint venture with National Welders met the definition of a "Variable Interest Entity" under FIN 46R (Note 2). Additionally, the Company, as the only common stockholder, was determined to be the primary beneficiary of the joint venture. Therefore, effective December 31, 2003, the Company elected to adopt FIN 46R, as it applies to the joint venture, and consolidated this previously unconsolidated affiliate.

National Welders is a producer and distributor of industrial gases based in Charlotte, North Carolina. The joint venture owns and operates 44 branch stores, two acetylene plants, a specialty gas lab, and three air separation plants that produce all of its oxygen and nitrogen and over 50% of its argon requirements. The joint venture also distributes medical and specialty gases, process chemicals and welding equipment and supplies. Ownership interests in National Welders consist of voting common stock and voting redeemable preferred stock with a 5% annual dividend. The Company owns 100% of the joint venture's common stock, which represents a 50% voting interest. The payment of dividends on the common stock is subordinate to the payment of a 5% dividend on the preferred stock. Additionally, the common stock dividends must be declared by a vote of the joint venture's board of directors. A family holds approximately 3.2 million shares of redeemable preferred stock and controls the balance of the voting interest.

Between June 30, 2006 and June 30, 2009, the preferred stockholders have the option to redeem their preferred shares for cash at a price of $17.78 per share or to tender them to the joint venture in exchange for approximately 2.3 million shares of Airgas common stock. If Airgas' common stock has a market value of $24.45 per share, the common stock and cash redemption options are equivalent. If the preferred stockholders elect to exchange their shares for Airgas common stock, the Company is obligated to provide the necessary shares to the joint venture by capital contribution or other means the Company reasonably deems appropriate. The Company may purchase shares on the open market or may issue new or treasury shares to meet its exchange obligation. The preferred stockholders may also elect to retain their interest in the preferred stock beyond June 30, 2009.

The Company has participated in the joint venture with National Welders since June 1996 and prior to the adoption of FIN 46R, the Company used the "equity method of accounting" to report its interest in the joint venture. Under the equity method of accounting, the Company recognized its proportionate share of the joint venture's net assets and liabilities as an "Investment in Unconsolidated Affiliate" and its proportionate share of the operating results as "Equity in the Earnings of Unconsolidated Affiliate."

As permitted by FIN 46R, the Company applied the interpretation prospectively from the date of adoption (prior periods not restated). The consolidation had the effect of eliminating the Company's $62 million investment in National Welders and recording the joint venture's assets, liabilities and a corresponding minority interest liability. The minority interest liability represents the redemption value of the joint venture's preferred stock ($57 million), net of a $21 million note receivable, bearing interest at 8%, due from the preferred stockholders.

Prior to the adoption of FIN 46R, the Company recognized its proportionate share of the joint venture's operating results of $4.4 million and $2.7 million as "Equity in Earnings of Unconsolidated Affiliates" for the nine-months ended December 31, 2003 and for the fiscal year ended March 31, 2003, respectively. Subsequent to the adoption of FIN 46R, the Company's proportionate share of the joint venture's operating results were reflected broadly across the income statement with minority interest expense reflecting the quarterly dividend on the joint venture's redeemable preferred stock, net of interest earned on the note receivable from the preferred stockholders and income taxes. For fiscal 2005 and the fourth quarter of fiscal 2004, National Welders contributed $167 million and $39 million to sales, $16 million and $3 million to operating income, $1.8 million and $452 thousand of minority interest expense, respectively. Assets of the joint venture totaled $231 million and $204 million at March 31, 2005 and 2004, respectively. The liabilities of the joint venture, which are non-recourse to the Company, totaled $132 million and $119 million at March 31, 2005 and 2004, respectively. The joint venture's liabilities include a revolving credit facility, term loans and other notes payable totaling $66 million and $54 million at March 31, 2005 and 2004. The debt of National Welders is secured by certain assets of the joint venture.

Cash flows in excess of a management fee paid by National Welders are not available to the Company. For fiscal 2005 and the fourth quarter of fiscal year 2004, National Welders contributed net cash from operating activities of $20 million and $10 million of which a management fee of $1.1 million and $249 thousand was paid to the Company.

7.34

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Cisco Systems, Inc.

We have completed an integrated audit of Cisco Systems, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of July 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Cisco Systems, Inc. and its subsidiaries at July 30, 2005 and July 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended July 30, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 2 and 3 to the consolidated financial statements, effective January 24, 2004, the Company adopted Financial Accounting Standards Board Interpretation No. 46(R), "Consolidation of Variable Interest Entities."

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of July 30, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 30, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Consolidation of Variable Interest Entities

Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), was issued in January 2003. FIN 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities, and results of operations of the variable interest entity should be included in the consolidated financial statements of the entity. FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), was issued in December 2003. The Company adopted FIN 46(R) effective January 24, 2004, and recorded a noncash cumulative stock compensation charge of $567 million, net of tax, relating to the consolidation of Andiamo Systems, Inc. ("Andiamo"). For additional information regarding Andiamo, see Note 3 to these Consolidated Financial Statements. For additional information regarding variable interest entities, see Note 8 to these Consolidated Financial Statements.

3 (In Part): Business Combinations

Acquisition of Variable Interest Entities

In April 2001, the Company entered into a commitment to provide convertible debt funding of approximately $84 million to Andiamo, a privately held storage switch developer. This debt was convertible into approximately 44% of the equity of Andiamo. In connection with this investment, the Company obtained a call option that provided the Company the right to purchase Andiamo. The purchase price under the call option was based on a valuation of Andiamo using a negotiated formula. On August 19, 2002, the Company entered into a definitive agreement to acquire Andiamo, which represented the exercise of its rights under the call option. The Company also entered into a commitment to provide nonconvertible debt funding to Andiamo of approximately $100 million through the close of the acquisition. Substantially all of the convertible debt funding of $84 million and nonconvertible debt funding of $100 million was expensed as R&D costs.

The Company adopted FIN 46(R) effective January 24, 2004. The Company evaluated its debt investment in Andiamo and determined that Andiamo was a variable interest entity under FIN 46(R). The Company concluded that the Company was the primary beneficiary as defined by FIN 46(R) and, therefore, accounted for Andiamo as if the Company had consolidated Andiamo since the Company's initial investment in April 2001. The consolidation of Andiamo from the date of the Company's initial investment required accounting for the call option as a repurchase right. Under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," and related interpretations, variable accounting was required for substantially all Andiamo employee stock and options because the ending purchase price was primarily derived from a revenue-based formula.

Effective January 24, 2004, the last day of the second quarter of fiscal 2004, the Company recorded a noncash cumulative stock compensation charge of $567 million, net of tax (representing the amount of variable compensation from April 2001 through January 2004). This charge was reported as a separate line item in the Consolidated Statements of Operations as a cumulative effect of accounting change, net of tax. The charge was based on the value of the Andiamo employee stock and options and their vesting from the adoption of FIN 46(R) pursuant to the formula-based valuation.

On February 19, 2004, the Company completed the acquisition of Andiamo, exchanging approximately 23 million shares of the Company's common stock for Andiamo shares not owned by the Company and assuming approximately 6 million stock options, for a total estimated value of $750 million, primarily derived from the revenue-based formula, which after stock price-related adjustments resulted in a total amount recorded of $722 million, as summarized in the table below.

Subsequent to the adoption of FIN 46(R), changes to the value of Andiamo and the continued vesting of the employee stock and options resulted in an adjustment to the noncash stock compensation charge. The Company recorded a noncash variable stock compensation adjustment of $58 million in the third quarter of fiscal 2004 to the cumulative stock compensation charge recorded in the second quarter of fiscal 2004 to account for the additional vesting of the Andiamo employee stock and options and changes in the formula-based valuation from January 24, 2004 until February 19, 2004. This noncash adjustment was reported as operating expense in the Consolidated Statements of Operations, as stock-based compensation related to acquisitions and investments in the Consolidated Statements of Cash Flows, and as an increase to additional paid-in capital in the Consolidated Statements of Shareholders' Equity. In addition, upon completion of the acquisition, deferred stock-based compensation of $90 million was recorded in the Consolidated Balance Sheets to reflect the unvested portion of the formula-based valuation of the Andiamo employee stock and options. The amount of deferred stock-based compensation was fixed at the date of acquisition and is being amortized over the vesting period of Andiamo employee stock and options of approximately two years.

A summary of the accounting of the initial consolidation under FIN 46(R) and the subsequent purchase of Andiamo, after stock price-related adjustments, is as follows (in millions):

	Amount
Cumulative effect of accounting change, net of tax benefit of $5	$567
Variable stock-based compensation	58
Deferred stock-based compensation	90
Net assets	7
Total	$722

In fiscal 2005, the Company completed the acquisitions of the following companies which had been consolidated prior to acquisition because the Company was deemed to be the primary beneficiary under FIN 46(R):

- Acquisition of BCN Systems, Inc. to contribute to the continued evolution of the Company's routing platforms and support ongoing efforts to speed the delivery of next-generation data, voice, and video services over a converged network. The acquisition was completed for a purchase price of approximately $45 million to be paid over a five-year period contingent upon continued employment of certain employees with the Company, which may be increased by approximately $122 million depending upon the achievement of certain development and product milestones. The purchase consideration consisted of cash.
- Acquisition of M.I. Secure, Corporation to add to the Company's network security technology. The acquisition was completed for a purchase price of approximately $1 million, which may be increased by approximately $12 million depending upon the achievement of certain development and product milestones. The purchase consideration consisted of cash.

- Acquisition of Vihana, Inc., a developer of custom application-specific integrated circuit (ASIC) chips, for a purchase price of approximately $30 million. The purchase consideration consisted of shares of Cisco common stock and stock options assumed. Upon completion of the acquisition, deferred stock-based compensation of $7 million was recorded in the Consolidated Balance Sheets.

The purchase consideration and any additional amounts to be paid for each of these acquisitions is recorded by the Company as compensation expense related to acquisitions and investments. During fiscal 2005, the Company recorded approximately $34 million of compensation expense relating to these acquisitions.

8 (In Part): Commitments and Contingencies

Variable Interest Entities

In the ordinary course of business, the Company has investments in privately held companies and provides structured financing to certain customers through its wholly owned subsidiaries, which may be considered to be variable interest entities. The Company has evaluated its investments in privately held companies and structured financings and determined that there were no significant unconsolidated variable interest entities as of July 30, 2005.

Goodwill Not Amortized

7.35

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation as of March 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quantum Corporation at March 31, 2005 and 2004 and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2, 4 and 6 to the Consolidated Financial Statements, in fiscal year 2003 Quantum Corporation changed its method of accounting for goodwill and other purchased intangible assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Quantum Corporation's internal control over financial reporting as of March 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 8, 2005 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Intangible Assets

As a result of adopting SFAS No. 142 *Goodwill and Other Intangible Assets* on April 1, 2002, Quantum discontinued the amortization of goodwill. Instead, goodwill was reviewed for impairment upon adoption of SFAS No. 142 and is reviewed annually thereafter in the fourth quarter, or more frequently when indicators of impairment are present. Refer to Note 4 "Cumulative Effect of an Accounting Change" and Note 6 "Goodwill and Intangible Assets" for a discussion of the impact of adopting and applying SFAS No. 142.

Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. Intangible assets are amortized over their estimated useful lives, which range from 3 months to 10 years. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-lived assets*. Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Note 4 Cumulative Effect of an Accounting Change

SFAS No. 142 *Goodwill and Other Intangible Assets*, which requires companies to discontinue the amortization of goodwill and certain intangible assets with an indefinite useful life, became effective for Quantum on April 1, 2002. Accordingly, goodwill and intangible assets deemed to have an indefinite useful life must be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter, or more frequently when indicators of impairment exist.

The assessment of impairment conducted in the first quarter of fiscal year 2003, the quarter in which Quantum adopted SFAS No. 142, required Quantum to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At the time of adoption, Storage Systems was the only business unit with goodwill. The fair value of the reporting unit underlying Storage Systems was estimated using both a discounted cash flow and market approach methodology. The reporting unit's carrying amount exceeded its fair value, indicating that the reporting units' goodwill was impaired, therefore requiring Quantum to perform the second step of the transitional impairment test. In the second step, Quantum compared the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair values to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141 *Business Combinations*.

Upon adoption of SFAS No. 142 in the first quarter of fiscal year 2003, Quantum recorded a non-cash accounting change adjustment of $94.3 million, reflecting a reduction to the carrying value of its goodwill, as a cumulative effect of an accounting change in the accompanying Consolidated Statements of Operations.

Note 6 "Goodwill and Intangible Assets" provides additional disclosure on the impact to Quantum's Consolidated Financial Statements as a result of applying SFAS No. 141 and SFAS No. 142.

Note 6 (In Part): Goodwill and Intangible Assets

As a result of adopting SFAS No. 142 *Goodwill and Other Intangible Assets* on April 1, 2002, Quantum recorded an accounting change adjustment of $94.3 million in the first quarter of fiscal year 2003, of which $68.5 million related to continuing operations, and a goodwill impairment charge of $58.7 million in the second quarter of fiscal year 2003 related to the Storage Systems group. The impairment charge recorded in the second quarter of fiscal year 2003 was attributable to the Storage Systems group and was primarily caused by the deterioration in the market values of comparable companies, and to a lesser extent, by a reduction in anticipated future cash flows. The fair value of the Storage Systems group was calculated using a combination of a discounted cash flow analysis involving projected data, and a comparable market approach, which involved a comparison with companies also in the tape automation business.

As required by SFAS No. 142, intangible assets that do not meet the criteria for recognition apart from goodwill must be reclassified. In applying these criteria, Quantum transferred $2.9 million of assembled workforce from intangible assets to goodwill in the first quarter of fiscal year 2003.

Inventories

7.36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Michaels Stores, Inc.

We have audited the accompanying consolidated balance sheets of Michaels Stores, Inc. as of January 28, 2006 and January 29, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Michaels Stores, Inc. at January 28, 2006 and January 29, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2005, the Company changed its method of accounting for merchandise inventories and share-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Michaels Stores, Inc.'s internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 27, 2006 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Merchandise Inventories

We value our fiscal 2005 merchandise inventories at Michaels stores at the lower of cost or market, with cost determined using a weighted average method. We utilize perpetual inventory records to value inventory in our Michaels stores. Physical inventory counts are performed in a significant number of stores at the end of each fiscal quarter by a third party inventory counting service firm, with substantially all stores open longer than one year subject to at least one annual count. We adjust our perpetual records based on the results of the physical counts.

Cost is calculated based upon the actual landed cost of an item at the time it is received by us using actual vendor invoices and also includes the cost of warehousing, handling, purchasing, and transporting the inventory to the stores. Vendor allowances, which primarily represent volume rebates and cooperative advertising funds, are recorded as a reduction of the cost of the merchandise inventories. The cost of warehousing, handling, purchasing, and transporting, and the vendor allowances are recognized through cost of sales based on our estimates of when the inventories are sold.

During the fourth quarter of fiscal 2005, we made certain refinements to our calculation for deferring costs related to preparing inventory for sale and for vendor allowance recognition as a result of our reviews and analyses related to our transition to cost accounting. These refinements resulted in a non-cash charge of approximately $23.9 million ($15.0 million net of income tax).

We maintain a provision for estimated shrinkage based on the actual historical results of our physical inventories. We compare our estimates to the actual results of the physical inventory counts as they are taken and adjust the shrink estimates accordingly. We also record adjustments to the value of inventory equal to the difference between the carrying value and the estimated market value, based on assumptions about future demand.

Fiscal 2004 merchandise inventories at Michaels stores were valued at the lower of cost or market using a retail inventory method. We performed complete physical inventories in a significant number of stores at the end of each fiscal quarter to estimate ending inventories valued at retail for all Michaels stores to be used in our retail inventory method. In determining our cost of goods sold and ending inventory at cost, we utilized a single pool of inventory for our Michaels' stores inventories. We recorded permanent markdown reserves in the period in which we determined that markdowns were required to sell certain merchandise. Such markdowns were based on each store's perpetual inventory records.

We value the inventory at our distribution centers, Aaron Brothers stores, Star Decorators Wholesale stores, and custom framing operations at the lower of cost or market, with cost determined using a weighted average method. The cost of inventory also includes certain costs associated with the warehousing, handling, purchasing, and transporting of the inventory.

Recent Accounting Pronouncements (In Part)

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This statement supersedes APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. The statement applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior period financial statements of a voluntary change in accounting principle unless it is impracticable to do so. The statement requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this statement. We will adopt SFAS No. 154 beginning in the first quarter of fiscal 2006, which is not expected to have a material impact on our consolidated results of operations, financial position, or cash flows.

Note 2 (In Part): Changes in Accounting

Transition to Cost Accounting

We changed our method of accounting for merchandise inventories from a retail inventory method to the weighted average cost method in the fourth quarter of fiscal 2005, effective as of the beginning of that fiscal year. We believe the weighted average cost method is preferable because we believe it:

- results in greater precision in the determination of cost of sales and inventories as each store/SKU combination is supported by perpetual records valued at cost using SKU level purchase order inputs, allowing for a reduction in the number of significant management estimates that were used in our retail inventory method;
- provides greater insight into shrink using more accurate periodic shrink expense analysis and reporting at the store/SKU level;
- aligns financial reporting with the operational view of the Company, which provides consistency in analysis of inventory management measures; and
- increases the accuracy of matching sales with related expenses, as cost of sales will represent the average cost of the individual items sold rather than an average of the entire pool, eliminating any fluctuations as a result of seasonal changes in the markup percentage of inventory on hand at the end of each quarter.

The effect of this change has been presented in the income statement as a cumulative effect of a change in accounting principle of $88.5 million, or approximately $0.64 per diluted share, which is net of an income tax benefit of $54.2 million. The inventory balance as of the beginning of fiscal 2005 is approximately $794 million on the weighted average cost method, which is approximately $143 million lower than the inventory balance reported under our retail inventory method. The non-cash reduction in the inventory balance is due to the change in accounting principle and is not an indication of an inventory impairment, as the underlying retail value of the Company's inventories is not affected by this accounting change. As a result of the change in accounting principle, fiscal 2005 cost of sales decreased by approximately $300,000, pre-tax, which had no impact on our diluted earnings per share calculation. For the fourth quarter of fiscal 2005, cost of sales reported under the weighted average cost method was lower than cost of sales reported under the previous retail inventory method by $25.9 million.

Amounts for the interim periods of fiscal 2005, are presented below under our previous retail inventory method, and as adjusted for the effect of the retroactive application of the weighted average cost method, had the weighted average cost method been in effect during the respective interim periods. The effect of the change in accounting principle for periods prior to fiscal 2005 is not determinable as the information required to value inventory on the weighted average cost method in prior periods is not available.

(In thousands, except per share data)	Quarter 1	Quarter 2	Quarter 2 YTD	Quarter 3	Quarter 3 YTD
As previously reported[(1)]:					
Net sales	$821,016	$745,493	$1,566,509	$839,663	$2,406,172
Cost of sales and occupancy expense	516,336	463,203	979,539	511,545	1,491,084
Gross profit	304,680	282,290	586,970	328,118	915,088
Operating income	77,471	62,824	140,295	86,614	226,909
Net income	46,533	30,815	77,348	55,442	132,790
Basic earnings per common share	0.34	0.23	0.57	0.41	0.98
Diluted earnings per common share	0.33	0.22	0.56	0.40	0.96
As restated[(2)]:					
Net sales	$821,016	$745,493	$1,566,509	$839,663	$2,406,172
Cost of sales and occupancy expense	503,204	481,263	984,467	535,155	1,519,622
Gross profit	317,812	264,230	582,042	304,508	886,550
Operating income	87,179	39,671	126,850	50,817	177,667
Income before cumulative effect of accounting change	52,554	16,461	69,015	33,247	102,262
Cumulative effect of accounting change	88,488	—	88,488	—	88,488
Net (loss) income	(35,934)	16,461	(19,473)	33,247	13,774
Before cumulative effect:					
Basic earnings per common share	$ 0.39	$ 0.12	$ 0.51	$ 0.25	$ 0.75
Diluted earnings per common share	0.38	0.12	0.50	0.24	0.74
After cumulative effect:					
Basic (loss) earnings per common share	$ (0.26)	$ 0.12	$ (0.14)	$ 0.25	$ 0.10
Diluted (loss) earnings per common share	(0.26)	0.12	(0.14)	0.24	0.10

(1) Amounts for the first three quarters are as previously reported on our fiscal 2005 Forms 10-Q. The amounts for each quarter presented represent our operations using a retail inventory method and do not include the effects of expensing share-based compensation.

(2) Amounts have been restated to reflect weighted average cost accounting and the impact of expensing stock options under SFAS No. 123(R).

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
United States Steel Corporation

We have completed integrated audits of United States Steel Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedule

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of United States Steel Corporation and its subsidiaries (the Company) at December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for inventories at United States Steel Kosice in 2005. As discussed in Note 19 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" and, accordingly, began consolidating Clairton 1314B Partnership as of January 1, 2004. As discussed in Note 21 to the consolidated financial statements, the Company adopted Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," and, accordingly, changed its manner of recording asset retirement costs as of January 1, 2003.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Reports to Stockholders—Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective Internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are carried at lower of cost or market on a worldwide basis. In the fourth quarter 2005, U. S. Steel changed its method of determining the cost of USSK inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Management considers this change to be preferable because it creates a consistent method of determining the cost of inventories within the U. S. Steel Europe (USSE) reportable segment and provides for comparability of the USSE segment with major international competitors. In accordance with Statement of Financial Accounting Standards (FAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" (FAS 154), the change from the LIFO method has been applied retrospectively by adjusting all prior periods presented. See Note. 2.

LIFO is the predominant method of inventory costing for domestic inventories. The LIFO method of inventory costing was used on 71% and 66% of total inventories at December 31, 2005 and 2004, respectively.

2. Change in Inventory Method

During the fourth quarter of 2005, U. S. Steel changed its method of determining the cost of USSK inventories from the LIFO method to the FIFO method. Management considers this change to be preferable because it creates a consistent method of determining the cost of inventories within the USSE reportable segment and provides for comparability of the USSE reportable segment with major international competitors. Comparative financial statements for all prior periods presented have been adjusted to apply the new method retrospectively.

The following line items on the statement of operations for the year ended December 31, 2005 were affected by the change in accounting principle:

(Dollars in millions)	As Computed Under LIFO	Effect of Change	As Reported Under FIFO
Cost of sales	$11,584	$ 17	$11,601
Income from operations	1,456	(17)	1,439
Net interest and other financial costs[(a)]	102	25	127
Income tax provision	366	(1)	365
Net income	951	(41)	910
Net Income per common share:			
-Basic	$ 8.23	$(0.36)	$ 7.87
-Diluted	$ 7.32	$(0.32)	$ 7.00

[(a)] Reflects the adjustment for foreign currency remeasurement effects of adjusted inventory cost.

In accordance with FAS No. 154, "Accounting Changes and Error Corrections" (FAS 154) the change from the LIFO method has been applied retrospectively by adjusting all prior periods presented. The following tables present the line items on the statement of operations that were impacted by the accounting change for the years ended December 31, 2004 and 2003:

(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
Year ended December 31, 2004			
Cost of sales	$11,413	$ (45)	$11,368
Income from operations	1,580	45	1,625
Net interest and other financial costs[(a)]	119	(4)	115
Income tax provision	351	5	356
Net income	1,091	44	1,135
Net income per common share:			
-Basic	$ 9.60	$0.40	$ 10.00
-Diluted	$ 8.48	$0.35	$ 8.83
Year ended December 31, 2003			
Cost of sales	$ 8,469	$ (11)	$ 8,458
Loss from operations	(730)	11	(719)
Net interest and other financial costs[(a)]	130	(34)	96
Income tax benefit	(454)	2	(452)
Net loss	(463)	43	(420)
Net loss per common share:			
-Basic	$ (4.64)	$0.42	$ (4.22)
-Diluted	$ (4.64)	$0.42	$ (4.22)

[(a)] Reflects the adjustment for foreign currency remeasurement effects of adjusted inventory cost.

The following tables present the line items on the balance sheet that were impacted by the accounting change at December 31, 2005 and 2004:

(Dollars in millions)	As Computed Under LIFO	Effect of Change	As Reported Under FIFO
December 31, 2005			
Inventory	$1,400	$ 66	$1,466
Deferred income tax benefits	278	(3)	275
Retained earnings	1,542	63	1,605

(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
December 31, 2004			
Inventory	$1,197	$108	$1,305
Deferred income tax liabilities	4	4	8
Retained earnings	651	104	755

As a result of the accounting change, retained earnings as of January 1, 2003 increased from $42 million, as originally reported using the LIFO method, to $59 million using the FIFO method.

The following tables present the line items on the statement of cash flows that were impacted by the accounting change for the years ended December 31, 2005, 2004 and 2003:

(Dollars in millions)	As Computed Under LIFO	Effect of Change	As Reported Under FIFO
Year ended December 31, 2005			
Net income	$ 951	$(41)	$ 910
Deferred Income taxes	44	(1)	43
Inventories	(203)	42	(161)

(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
Year ended December 31, 2004			
Net income	$1,091	$ 44	$1,135
Deferred income taxes	355	5	360
Inventories	87	(49)	38
Year ended December 31, 2003			
Net loss	$ (463)	$ 43	$ (420)
Deferred income taxes	(445)	2	(443)
Inventories	235	(45)	190

Because U. S. Steel adopted the accounting change in the fourth quarter of 2005, it is necessary to adjust the previously reported quarters of 2005 as if the change had been effective as of January 1, 2005. The accounting change affects the quarters of 2005 as follows:

Statement of Operations		Unaudited	
(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
Quarter ended September 30, 2005			
Cost of sales	$2,808	$ 11	$2,819
Income from operations	159	(11)	148
Net interest and other financial costs[(a)]	16	4	20
Income tax provision	28	(1)	27
Net income	107	(14)	93
Net income per common share:			
- Basic	$ 0.89	$(0.12)	$0.77
- Diluted	$ 0.82	$(0.11)	$0.71
Quarter ended June 30, 2005			
Cost of sales	$2,925	$ (8)	$2,917
Income from operations	413	8	421
Net interest and other financial costs[(a)]	63	5	68
Income tax provision	93	(1)	92
Net income	245	4	249
Net income per common share:			
- Basic	$ 2.11	$ 0.03	$ 2.14
- Diluted	$ 1.88	$ 0.03	$ 1.91
Quarter ended March 31, 2005			
Cost of sales	$2,899	$ (8)	$2,891
Income from operations	640	8	648
Net interest and other financial costs[(a)]	22	3	25
Income tax provision	155	1	156
Net income	455	4	459
Net income per common share:			
- Basic	$ 3.95	$ 0.03	$ 3.98
- Diluted	$ 3.48	$ 0.03	$ 3.51

[(a)] Reflects the adjustment for foreign currency remeasurement effects of adjusted inventory cost.

Balance Sheet	Unaudited		
(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
September 30, 2005			
Inventory	$1,341	$101	$1,442
Deferred income tax benefits	261	(3)	258
Retained earnings	1,413	98	1,511
June 30, 2005			
Inventory	$1,428	$116	$1,544
Deferred income tax benefits	138	(4)	134
Retained earnings	1,322	112	1,434
March 31, 2005			
Inventory	$1,308	$113	$1,421
Deferred income tax benefits	176	(5)	171
Retained earnings	1,093	108	1,201

Statement of Cash Flows	Unaudited		
(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
Nine months ended September 30, 2005			
Net income	$ 807	$ (6)	$ 801
Deferred income taxes	86	(1)	85
Inventories	(144)	7	(137)
Six months ended June 30, 2005			
Net income	$ 700	$ 8	$ 708
Deferred income taxes	158	—	158
Inventories	(231)	(8)	(239)
Three months ended March 31, 2005			
Net income	$ 455	$ 4	$ 459
Deferred income taxes	103	1	104
Inventories	(111)	(5)	(116)

The accounting change affects the quarters of 2004 as follows:

Statement of Operations	Unaudited		
(Dollars In millions)	As Originally Reported	Effect of Change	As Adjusted
Quarter ended December 31, 2004			
Cost of sales	$3,072	$ 4	$3,076
Income from operations	547	(4)	543
Net interest and other financial costs[a]	(23)	10	(13)
Income tax provision	88	3	91
Net income	468	(17)	451
Net income per common share:			
- Basic	$ 4.07	$(0.15)	$ 3.92
- Diluted	$ 3.59	$(0.13)	$ 3.46
Quarter ended September 30, 2004			
Cost of sales	$2,967	$ (7)	$2,960
Income from operations	494	7	501
Net interest and other financial costs[a]	4	1	5
Income tax provision	126	1	127
Net income	354	5	359
Net income per common share:			
- Basic	$ 3.08	$ 0.04	$ 3.12
- Diluted	$ 2.72	$ 0.04	$ 2.76
Quarter ended June 30, 2004			
Cost of sales	$2,816	$ (29)	$2,787
Income from operations	388	29	417
Net interest and other financial costs[a]	86	(15)	71
Income tax provision	86	—	86
Net income	211	44	255
Net income per common share:			
- Basic	$ 1.82	$ 0.39	$ 2.21
- Diluted	$ 1.62	$ 0.34	$ 1.96
Quarter ended March 31, 2004			
Cost of sales	$2,558	$ (13)	$2,545
Income from operations	151	13	164
Net interest and other financial costs[a]	52	—	52
Income tax provision	51	1	52
Net income	58	12	70
Net income per common share:			
- Basic	$ 0.51	$ 0.11	$ 0.62
- Diluted	$ 0.47	$ 0.10	$ 0.57

[a] Reflects adjustment for foreign currency remeasurement effects of adjusted inventory cost.

Balance Sheet	Unaudited		
(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
September 30, 2004			
Inventory	$1,251	$122	$1,373
Deferred income tax benefits	167	(1)	166
Retained earnings	193	121	314
June 30, 2004			
Inventory	$1,332	$116	$1,448
Deferred income tax benefits	245	—	245
Retained deficit	(152)	116	(36)
March 31, 2004			
Inventory	$1,180	$ 72	$1,252
Deferred income tax benefits	239	—	239
Retained deficit	(363)	72	(291)

Statement of Cash Flows	Unaudited		
(Dollars in millions)	As Originally Reported	Effect of Change	As Adjusted
Nine months ended September 30, 2004			
Net income	$623	$ 61	$ 684
Deferred income taxes	264	2	266
Inventories	32	(63)	(31)
Six months ended June 30, 2004			
Net income	$269	$ 56	$ 325
Deferred income taxes	90	1	91
Inventories	(48)	(58)	(106)
Three months ended March 31, 2004			
Net income	$ 58	$ 12	$ 70
Deferred income taxes	33	1	34
Inventories	104	(14)	90

Impairment of Intangible Assets

7.38

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Boyd Gaming Corporation

We have audited the accompanying consolidated balance sheets of Boyd Gaming Corporation and Subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Boyd Gaming Corporation and Subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, in 2005, the Company changed its method of accounting for intangible assets to conform to EITF D-108, *Use of the Residual Method to Value Acquired Assets Other Than Goodwill*, and recorded a cumulative effect of a change in accounting principle.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are not subject to amortization, but are reviewed for impairment at least annually and between annual test dates in certain circumstances. In September 2004, new accounting literature was introduced related to impairment testing of indefinite-lived intangible assets. Refer to Note 8, "*Intangible Assets and Goodwill*" for additional information on its effect on our consolidated financial statements.

Note 8 (In Part): Intangible Assets and Goodwill

During 2004, we acquired Sam's Town Shreveport and Coast Casinos. In connection with those transactions, we recorded significant amounts of intangible assets and goodwill during that are included in the tables below. In 2005, as further described below, we wrote down Delta Downs license rights by $25.4 million.

Intangible assets consist of the following:

(In thousands)	2005	2004
Par-A-Dice license rights	$121,053	$121,053
Treasure Chest license rights	85,316	85,316
Blue Chip license rights	166,795	166,795
Delta Downs license rights	84,000	109,443
Sam's Town Shreveport license rights	28,900	28,900
Sam's Town Shreveport customer list	100	100
Coast Casinos trademarks	54,400	54,400
Coast Casinos customer list	350	350
Total intangible assets	540,914	566,357
Less accumulated amortization	34,076	34,006
Intangible assets, net	$506,838	$532,351

License rights are intangible assets acquired from the purchase of gaming entities that are located in gaming jurisdictions where competition is limited, such as when only a limited number of gaming operators are allowed to operate. License rights and trademarks are not subject to amortization as we have determined that they have an indefinite useful life.

Customer lists are being ratably amortized over a five-year period. For the years ended December 31, 2005 and 2004, amortization expense for the customer lists was less than $0.1 million. For each year in the period ending December 31, 2009, amortization expense related to the customer lists is expected to be approximately $0.1 million, at which time the assets are expected to be fully amortized.

In September 2004, the Emerging Issues Task Force, or EITF, of the FASB issued EITF D-108, *Use of the Residual Method to Value Acquired Assets Other Than Goodwill*, which requires the application of the direct value method for intangible assets acquired in business combinations completed after September 29, 2004. In addition, EITF D-108 requires companies that have applied the residual method to the valuation of intangible assets acquired prior to such date for purposes of impairment testing to perform an impairment test using the direct value method beginning with their fiscal year beginning after December 15, 2004. Impairments of intangible assets recognized upon application on a direct value method should be reported as a cumulative effect of a change in accounting principle.

We have utilized a residual cash flow methodology in performing our annual impairment tests for all of our indefinite-lived intangible assets acquired prior to 2004. For the transition testing in 2005 as well as annually thereafter, we intend to utilize the direct value method to perform our impairment tests on such indefinite-lived intangible assets. Effective January 1, 2005, we completed this transition testing for all our intangible license rights and determined that the fair value of our Delta Downs intangible license rights was less than its book value. Accordingly, for the year ended December 31, 2005, we recorded a non-cash charge of $25.4 million, $16.4 million, net of taxes, to reduce the balance of this asset to its fair value. This charge has been reflected as a cumulative effect of a change in accounting principle, net of taxes, in the accompanying consolidated statement of operations.

Goodwill and indefinite-lived assets must be reviewed for impairment at least annually and between annual test dates in certain circumstances. We perform our annual impairment test for goodwill and indefinite-lived assets in the second quarter of each year. No impairments were indicated as a result of the annual impairment reviews for goodwill and indefinite-lived assets for 2005, 2004 or 2003. During 2005, we performed impairment tests on our license rights at Treasure Chest and Delta Downs pursuant to triggering events related to hurricanes.

EMPHASIS OF A MATTER

7.39 Paragraph 19 of *SAS No. 58*, as amended by *SAS No. 79*, states:

> 19. In any report on financial statements, the auditor may emphasize a matter regarding the financial statements. Such explanatory information should be presented in a separate paragraph of the auditors' report. Phrases such as "with the foregoing (following) explanation" should not be used in the opinion paragraph if an emphasis paragraph is included in the auditors' report. Emphasis paragraphs are never required; they may be added solely at the auditors' discretion. Examples of matters the auditor may wish to emphasize are—
>
> - That the entity is a component of a larger business enterprise.
> - That the entity has had significant transactions with related parties.
> - Unusually important subsequent events.
> - Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

7.40 The auditors' reports for 5 survey companies included explanatory information emphasizing a matter regarding the financial statements. Examples of such explanatory information follow.

7.41

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
National Presto Industries, Inc.

We have audited the accompanying consolidated balance sheets of National Presto Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Presto Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As stated in Note I to the financial statements, pursuant to a federal court order the Company was required to register as an investment company under the Investment Company Act of 1940. The Company registered in December 2005. In January 2006, the Company filed an application to deregister. The timing of the Securities and Exchange Commission's ("SEC") staff review of the application for deregistration is not known at this time. The Company has disclosed that discussions regarding its application for deregistration and its reporting obligations are ongoing with the SEC. In the interim, the Company has not filed the financial statements that would be required under the Investment Company Act of 1940 nor has it included financial statements that would reflect the financial information of the Company as an investment company. The ultimate outcome of these matters and future actions of the SEC, if any, are not known at this time.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of National Presto Industries, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2005, based on *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2006 expressed an unqualified opinion on the effectiveness of National Presto Industries, Inc. and subsidiaries internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Commitments and Contingencies

In July 2002, the Securities and Exchange Commission (SEC) filed a lawsuit in the federal district court in Chicago, Illinois, against National Presto Industries, Inc. alleging the Company operated as an unregistered investment company from 1994 through 2002. The case does not involve fraud, deceptive practices, or questionable accounting methods. During the fourth quarter of 2005, the federal district judge granted the SEC's motion for summary judgment and ordered the Company to register under the Investment Company Act. The Company filed the requisite notice of registration, indicating that the Company did not believe that it met the statutory definition of an investment company and as such, the filing was being made pursuant to the court's order, rather than the terms and requirements of the Act. It also indicated that it would shortly be filing an application to deregister. That application was subsequently filed in January 2006. Timing of the SEC staff's review of the application for deregistration is not known at this time. Management believes that in the interim, the SEC staff will not object if the Company files its financial statements and related information for the year ending December 31, 2005, under the 1934 Act as an operating company rather than as an investment company under the Investment Company Act. The SEC staff has asked the Company to consider supplementing its operating company financial statements with additional financial information like that prepared by registered investment companies. Discussions regarding that request and related issues are ongoing with the SEC staff.

The Company has filed a notice of appeal from the decision to the United States Circuit Court of Appeals for the 7th Circuit. Because the appeal was from a summary judgment rather than a trial decision, the findings of the lower court will be reviewed afresh (de novo) by three judges at the appellate level. Although management believes that its position will be upheld on appeal, it can not predict either when the matter will be resolved or what the final outcome will be.

7.42

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Wheeling-Pittsburgh Corporation

We have completed integrated audits of Wheeling-Pittsburgh Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its consolidated financial statements for the period from August 1, 2003 to December 31, 2003 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Wheeling-Pittsburgh Corporation and its subsidiaries (Reorganized Company) at December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows and changes in stockholders' equity for the years ended December 31, 2005 and 2004 and for the period from August 1, 2003 to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Reorganized Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the United States Bankruptcy court for the Northern District of Ohio confirmed the Reorganized Company's Third Amended joint Plan of reorganization (the Plan) on June 18, 2003. Confirmation of the Plan resulted in the discharge of all claims against the Reorganized Company that arose before November 16, 2000 and substantially altered or terminated all rights and interest of equity security holders as provided for in the Plan. The Plan was substantially consummated on August 1, 2003 and the Reorganized Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Reorganized Company adopted fresh start accounting as of August 1, 2003.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Reorganized Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Reorganized Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Reorganized Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Basis of Presentation

The Company emerged from bankruptcy effective August 1, 2003 (see Note 2), and applied fresh start reporting as of July 31, 2003 (see Note 3). As a result, amounts reported in the financial statements for the seven months ended July 31, 2003 relate to the Company prior to its reorganization and the application of fresh start reporting. Amounts for these periods are referred to as being applicable to the "Predecessor Company". Amounts for periods subsequent to the reorganization of the Company are referred to as being applicable to the "Reorganized Company". Due to the application of fresh start reporting as of July 31, 2003, amounts reported for the predecessor company and the reorganized company are not comparable and have been separated by a black line in the financial statements.

Property, Plant and Equipment

Property, plant and equipment acquired subsequent to July 31, 2003 is recorded at cost. Property, plant and equipment acquired prior to August 1, 2003, was recorded at fair value as of August 1, 2003 as a result of the application of fresh start reporting. Depreciation is computed using the straight-line method based on estimated useful lives of 40 years for real property and estimated useful lives ranging from 3 to 30 years for machinery and equipment. Betterments and improvements are capitalized. Repairs and maintenance are expensed as incurred. Gains and losses from the sale of property, plant and equipment are recorded as cost of goods sold. Interest costs incurred to construct property, plant and equipment are capitalized.

Prior to August 1, 2003, depreciation was computed using the straight-line or modified units of production method. Under the modified units of production method, the straight-line method was adjusted based on an activity factor for operating assets. Adjusted annual depreciation was not less than 60% or more than 110% of straight-line depreciation. Accumulated depreciation, after adjustment, was not less than 75% or more than 110% of straight-line depreciation.

The Company periodically evaluates property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Assets deemed to be impaired are written down to their fair market value using discounted future cash flows and, if available, comparable market values. Considering the Company's integrated operations, asset impairment evaluations are generally performed on a group basis, which represents the lowest level of independent cash flows.

2. Bankruptcy and Reorganization

On November 16, 2000, the Company and eight of its then-existing wholly-owned subsidiaries, which represented substantially all of the Company's business, filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. The Company commenced Chapter 11 proceedings in order to restructure its outstanding debts and to improve its access to additional funding needed to continue operations. Throughout the Chapter 11 proceedings, the Company remained in possession of its properties and assets and continued to operate and manage its businesses with the then-existing directors and officers as debtors-in-possession subject to the supervision of the Bankruptcy Court.

As part of the Chapter 11 proceedings, the Company filed its original Joint Plan of Reorganization and three amendments, reflecting the final negotiations with pre-petition note holders, pre-petition trade creditors and unionized employees. The Company's plan of reorganization was confirmed on June 18, 2003 and became effective on August 1, 2003. The Company realized $557,541 in cancellation of debt income as a result of the reorganization.

The following is a summary of some of the significant transactions consummated on or about the effective date of the plan of reorganization:

- The Company amended and restated its by-laws and filed a second amended and restated certificate of incorporation with the Delaware Secretary of State authorizing the issuance of up to an aggregate of 80 million shares of common stock, par value $0.01 per share, and 20 million shares of undesignated preferred stock, par value $0.001 per share.
- The Company exchanged, on a pro rata basis, $275,000 in senior notes and $75,000 in term notes that existed prior to its bankruptcy filing for an aggregate of $20,000 in cash, $40,000 in new Series A secured notes issued by Wheeling-Pittsburgh Steel Corporation (WPSC), a wholly-owned subsidiary of the Company, $20,000 in new Series B secured notes issued by WPSC and 3,410,000 shares of new common stock of the Company, constituting 34.1% of the total shares of new common stock issued.
- The Company cancelled its then-existing senior notes and related indenture and its then-existing term notes and the related term loan agreement.
- The Company cancelled all shares of its common stock that existed prior to the implementation of the plan of reorganization, at which point it ceased to be a subsidiary of WHX Corporation.
- WPSC entered into a new $250,000 senior secured term loan facility, which is guaranteed for the most part by the Emergency Steel Loan Guarantee Board, the West Virginia Housing Development Fund, the Company and WP Steel Venture Corporation, a wholly-owned subsidiary of the Company. WPSC also entered into a new $225,000 senior secured revolving credit facility, which is guaranteed by the Company and WP Steel Venture Corporation.
- All of the obligations under the Company's $195,000 debtor-in-possession credit facility were satisfied in full and discharged.
- The Company and WPSC entered into an agreement with WHX Corporation providing for, among other things, a $10,000 capital contribution by WHX Corporation, the capitalization of approximately $40,000 in debt owed by the Company to WHX Corporation, a $10,000 unsecured loan from WHX Corporation and an agreement with WHX Corporation, the Pension Benefit Guaranty Corporation (PBGC), and the United Steelworkers of America (USW), with respect to the Company's separation from WHX Corporation's employee pension plan.
- The Company and WPSC entered into an agreement with its unionized employees represented by the USW which modified the existing labor agreement to provide for, among other things, future pension arrangements with the USW and reductions in the Company's employee-related costs.
- The Company issued 4,000,000 shares of new common stock, constituting 40% of the total shares of new common stock issued, for the benefit of USW retirees in satisfaction of certain claims under its labor agreement and an additional 1,000,000 shares of its new common stock, constituting 10% of the total shares of new common stock issued, to or for the benefit of the Company's salaried employees.
- The Company issued 1,590,000 shares of new common stock, constituting 15.9% of the total shares of new common stock issued, to certain of its creditors in satisfaction of various unsecured claims, including claims relating to trade debt.

There are still several matters pending in the Bankruptcy Court, including the resolution of disputed unsecured and administrative claims and certain preference actions and other litigation where the Company is seeking to recover monies. As of December 31, 2005, 32,014 shares of common stock issued pursuant to the plan of reorganization were reserved for distribution to creditors pending resolution of certain disputed claims. If those claims are ultimately allowed in whole or in part by the Bankruptcy Court, the appropriate amount of stock will be distributed to those claimants; if the claims are disallowed, the stock will be distributed to other creditors of the same class, pro rata. To the extent that certain administrative and secured claims are allowed by the Bankruptcy Court, those claims will be paid in cash, in an amount the Company expects will not exceed $100 and for which there are sufficient reserves held by the distribution agent. If and to the extent those claims are allowed as pre-petition unsecured claims, then those creditors will receive stock, which has been reserved as described above. In addition, the Company is the plaintiff in a number of preference actions, where it is seeking to recover monies from creditors. The Company does not believe that any of these remaining bankruptcy proceedings, individually or in the aggregate, will have a material adverse effect on the Company.

3. Fresh Start Reporting

In accordance with SOP 90-7, the Company adopted the provisions of fresh start reporting as of July 31, 2003. In adopting the requirements of fresh start reporting, the Company made a determination of the enterprise value of the entity based upon various valuation methods, including discounted cash flow methodologies, analysis of comparable steel companies, and other applicable ratios and economic industry information relevant to the operations of the Company. The estimated total equity value of the reorganized company aggregating $150,000 was determined after taking into account the values of the obligations assumed in connection with the Joint Plan of Reorganization.

The following reconciliation of the Predecessor Company's consolidated balance sheet as of July 31, 2003 to that of the Reorganized Company as of July 31, 2003 was prepared with the adjustments that give effect to the reorganization and fresh start reporting.

The adjustments entitled "Reorganization Adjustments" reflect the consummation of the Joint Plan of Reorganization, including the elimination of existing liabilities subject to compromise, and consolidated shareholders' deficit, and to reflect the aforementioned $150,000 equity value.

The adjustments entitled "Fresh Start Adjustments" reflect the adoption of fresh start reporting, including the adjustments to record property and equipment at its fair value.

	Pre-Reorganization July 3l, 2003	Reorganization Adjustments	Fresh Start Adjustments	Post-Reorganization July 31, 2003
Assets				
Current assets:				
Cash and cash equivalents	$ 7,382	$ —	$ —	$ 7,382
Accounts receivable, less allowance for doubtful accounts of $1,916	112,649	(233)	—	112,416
Inventories	164,322	—	(9,658)	154,664
Prepaid expenses and deferred charges	6,559	12	—	6,571
Total current assets	290,912	(221)	(9,658)	281,033
Investment in affiliated companies	59,982		(19,505)	40,477
Property, plant and equipment, less accumulated depreciation	493,514		(133,301)	360,213
Deferred income tax benefits	27,342	(3,860)[(b)]	—	23,482
Restricted cash	—	112,000 [(a)]	—	112,000
Goodwill	—	30,000 [(g)]	—	30,000
Deferred charges and other assets	8,964	12,844 [(g)]	9,756	31,564
Total assets	$ 880,714	$ 150,763	$(152,708)	$878,769
Liabilities				
Current liabilities:				
Accounts payable	$ 81,275	$ (1,334)[(a)]	$ —	$ 79,941
Short-term debt	137,214	(100,299)[(a)]	—	36,915
Payroll and employee benefits	35,118	32,795 [(c)]	—	67,913
Accrued income and other taxes	10,054	1,200 [(a)(c)]	—	11,254
Deferred income taxes	27,342	(3,860)[(a)(c)]	—	23,482
Accrued interest and other	8,026	2,647 [(a)(c)]	—	10,673
Long-term debt due in one year	43,433	(39,678)[(a)(c)(f)]	—	3,755
Total current liabilities	342,462	(108,529)	—	233,933
Long-term debt	11,985	327,863 [(a)(c)]	—	339,848
Other employee benefits	17,317	124,981 [(c)]	—	142,298
Other liabilities	17,150	3,040 [(a)(c)]	—	20,190
Liabilities subject to compromise	879,455	(879,455)[(c)]	—	—
Total liabilities	1,268,369	(532,100)	—	736,269
Stockholders' equity (deficit)				
Common stock—$.01 par value; 10 million shares issued and outstanding	—	100 [(c)]	—	100
Additional paid-in capital	335,138	149,900 [(c)(g)]	(335,138)[(d)]	149,900
Deferred compensation	—	(7,500)[(e)]	—	(7,500)
Accumulated earnings (deficit)	(722,793)	540,363 [(b)(c)(f)]	182,430 [(d)]	—
Total stockholders' equity (deficit)	(387,655)	682,863	(152,708)	142,500
Total liabilities and stockholders' equity	$ 880,714	$ 150,763	$(152,708)	$878,769

(a) Reflects the borrowing of the $250,000 term loan proceeds and amounts under the post-petition revolver and the payments necessary to effect the Plan of Reorganization, such as the repayment of DIP facilities, cash distributions to creditors and the payment of fees and expenses associated with the exit financing.

(b) Reflects the impact on retained earnings of reorganization expenses net of tax benefit

(c) Reflects the settlement of liabilities subject to compromise, including the distribution of cash, notes and equity to the pre-petition creditors, the assumption of OPEB and other pre-petition liabilities (capital leases, employee benefits, taxes) and the cancellation of debt income.

(d) Reflects the adjustments to reflect "Fresh Start" reporting. These entries include the write-down of inventories, property, plant and equipment and joint venture interests to their appraised values, elimination of accumulated deficits and additional paid-in capital.

(e) Reflects restricted stock awards for the distribution of employee equity into trust.

(f) Reflects the cancellation of debt as a result of WHX Corporation forgiving its portion of the DIP term loan.

(g) Reflects the pre-funding, of VEBA obligations with 4,000,000 shares of the Company's common stock, an intangible asset related to joint venture supply agreements and goodwill.

DEPARTURES FROM UNQUALIFIED OPINIONS

7.43 *SAS No. 58* does not require auditors to express qualified opinions as to the effects of uncertainties or as to lack of consistency. Under *SAS No. 58*, departures from unqualified opinions include opinions qualified because of a scope limitation or a departure from generally accepted accounting principles, adverse opinions, and disclaimers of opinion. Paragraphs 20–63 of *SAS No. 58*, as amended by *SAS No. 79*, discuss these departures. None of the auditors' reports issued in connection with the financial statements of the survey companies contained a departure as defined by *SAS No. 58*.

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

7.44 Paragraphs 65–74 of *SAS No. 58*, as amended by *SAS No. 79*, discuss Reports on Comparative Financial Statements. None of the auditors' reports for the survey companies expressed an opinion on prior year financial statements that differed from the opinion originally expressed.

7.45 In 2005, nine auditor reports indicated that a change in auditors had occurred in the current year. An example of such a report follows.

7.46

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
ElkCorp

We have audited the accompanying consolidated balance sheet of ElkCorp and subsidiaries as of June 30, 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ElkCorp and subsidiaries as of June 30, 2005, and the results of their consolidated operations and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ElkCorp and subsidiaries' internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 30, 2005 expressed an unqualified opinion on both management's assessment of ElkCorp's control over financial reporting and on the effectiveness of ElkCorp's internal control.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
ElkCorp

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, shareholder's equity and cash flows present fairly, in all material respects, the financial position of ElkCorp and subsidiaries at June 30, 2004, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable asssurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

7.47 Many survey companies provide to stockholders a copy of the Securities and Exchange Commission Form 10-K in lieu of the annual report. The auditors' report included in the Form 10-K generally expresses an opinion on supplementary financial information to the basic financial statements, such as valuation account schedules. During 2005, 143 survey companies expressed an opinion on supplementary financial information. An example of such a report follows.

7.48

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Avnet, Inc.

We have audited the accompanying consolidated balance sheets of Avnet, Inc. and subsidiaries (the Company) as of July 2, 2005, and July 3, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended July 2, 2005. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule for each of the years in the three-year period ended July 2, 2005, as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avnet, Inc. and subsidiaries as of July 2, 2005 and July 3, 2004, and the results of their operations and their cash flows for each of years in the three-year period ended July 2, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule for each of the years in the three-year period ended July 2, 2005, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Avnet, Inc.'s internal control over financial reporting as of July 2, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 7, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(Thousands)	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Fiscal 2005					
Allowance for doubtful accounts	$ 78,410	$ 33,248	$ —	$ 26,579[a]	$ 85,079
Valuation allowance on foreign tax loss carryforwards	174,090	5,444	22,369[b]	(9,920)[c]	191,983
Fiscal 2004					
Allowance for doubtful accounts	84,042	36,434	—	42,066[a]	78,410
Valuation allowance on foreign tax loss carryforwards	148,382	25,708	—	—	174,090
Fiscal 2003					
Allowance for doubtful accounts	99,073	46,664	—	61,695[a]	84,042
Valuation allowance on foreign tax loss carryforwards	120,671	27,711	—	—	148,382

(a) Uncollectible accounts written off.
(b) Reclassification of contingency reserves to valuation allowance.
(c) Write-off of certain unrealizable tax loss carryforwards against the previously established valuation allowance.

DATING OF REPORT

7.49 SAS No. 1, Section 530, *Dating of the Independent Auditor's Report*, as amended by SAS No. 7, *Communications Between Predecessor and Successor Auditors*, SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and SAS No. 98, *Omnibus Statement on Auditing Standards—2002*, discusses dating of the independent auditors' reports. Paragraphs 1 and 5 of *section 530* state:

> 1. Generally, the date of completion of the field work should be used as the date of the independent auditors' report. Paragraph .05 describes the procedure to be followed when a subsequent event occurring after the completion of the field work is disclosed in the financial statements.
>
> 5. The independent auditor has two methods available for dating the report when a subsequent event disclosed in the financial statements occurs after completion of the field work but before issuance of the related financial statements. The auditor may use "dual dating," for example, "February 16, 20XX, except for Note X, as to which the date is March 1, 20XX," or may date the report as of the later date. In the former instance, the responsibility for events occurring subsequent to the completion of field work is limited to the specific event referred to in the note (or otherwise disclosed). In the latter instance, the independent auditors' responsibility for subsequent events extends to the date of the report and, accordingly, the procedures outlined in Section 560.12 generally should be extended to that date.

7.50 Auditors' reports for 8 survey companies used dual dating. Examples of dual dating follow.

7.51

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Brinker International, Inc.

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 29, 2005 and June 30, 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 29, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brinker International, Inc. and subsidiaries as of June 29, 2005 and June 30, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended June 29, 2005 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of June 29, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 8, 2005, except as to Note 15, which is as of August 16, 2005, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

August 8, 2005,
except as to Note 15,
which is as of August 16, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Event

In August 2005, the Company entered into a letter of intent to sell its Corner Bakery restaurant concept. The decision to sell the concept was a result of the Company's continued focus on achieving minimum return on investment thresholds. The net assets to be sold as of June 29, 2005 totaled approximately $70.0 million and consisted primarily of property and equipment of $61.0 million. The sale is expected to be completed during the second quarter of fiscal 2006 at an estimated pre-tax loss of $3.0 to $5.0 million, including expenditures to complete construction-in-progress and selling costs.

7.52

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
The Home Depot, Inc.

We have audited the accompanying Consolidated Balance Sheets of The Home Depot, Inc. and subsidiaries as of January 29, 2006 and January 30, 2005, and the related Consolidated Statements of Earnings, Stockholders' Equity and Comprehensive Income, and Cash Flows for each of the fiscal years in the three-year period ended January 29, 2006. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of The Home Depot, Inc. and subsidiaries as of January 29, 2006 and January 30, 2005, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 29, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, effective February 3, 2003, the Company changed its method of accounting for cash consideration received from a vendor to conform to Emerging Issues Task Force No. 02-16 and adopted the fair value method of recording stock-based compensation expense in accordance with Statement of Financial Accounting Standards No. 123.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Home Depot, Inc. and subsidiaries' internal control over financial reporting as of January 29, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 22, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

March 22, 2006,
except as to Note 12,
which is as of March 24, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Subsequent Events

On March 24, 2006, the Company issued $1.0 billion of 5.20% Senior Notes due March 1, 2011 at a discount of $1 million and $3.0 billion of 5.40% Senior Notes due March 1, 2016 at a discount of $15 million. Interest on these senior notes is due semi-annually on March 1 and September 1, of each year.

Additionally in March 2006, the Company entered into forward starting interest rate swap agreements with a notional amount of $2.0 billion accounted for as a cash flow hedge to hedge interest rate fluctuations in anticipation of the issuance of the 5.40% Senior Notes due March 1, 2016. Upon issuance of the 5.40% Senior Notes due March 1, 2016, the Company settled its forward starting interest rate swap agreements and recorded a $19 million decrease to Accumulated Other Comprehensive Income, which will be amortized to interest expense over the life of the 5.40% Senior Notes due March 1, 2016.

7.53

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Lafarge North America Inc.

We have audited the accompanying consolidated balance sheets of Lafarge North America Inc. (a Maryland corporation) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lafarge North America Inc. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2003 the Company changed its method of accounting for asset retirement obligations. Also, as discussed in Note 19 to the consolidated financial statements, the Company changed the date used to measure pension and other postretirement benefit plan assets and obligations in 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lafarge North America Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 6, 2006 expressed an unqualified opinion thereon.

February 6, 2006,
except for Note 23,
as to which the date is February 21, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 23 Subsequent Event

On February 21, 2006, Lafarge S.A. commenced a tender offer to acquire for $75.00 per share in cash the shares of our common stock and the exchangeable preference shares of Lafarge Canada Inc. that Lafarge S.A. and certain other persons and entities described in the offer do not own. Among other conditions, the tender offer is subject to the tender of a majority of outstanding common stock and exchangeable preference shares not owned by Lafarge S.A. and the ownership by Lafarge S.A. after the tender offer of at least 90 percent of the combined common stock and exchangeable preference shares outstanding. Also, the tender offer provides that upon acquisition by Lafarge S.A. of at least 90 percent of the combined common stock and exchangeable preference shares outstanding after the tender offer, Lafarge S.A. has stated that it intends to acquire through a subsequent short-form merger at the per share tender offer price those shares it does not acquire in the tender offer. Our Board of Directors appointed a special committee of directors who are unaffiliated with Lafarge S.A. to consider the tender offer. The special committee is reviewing and considering the offer and is expected to make a recommendation to our stockholders in due course. We have urged our stockholders to defer making any determination with respect to the tender offer until they have been advised of the special committee's position with respect to the tender offer.

7.54

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
RPM International Inc.

We have audited the accompanying consolidated balance sheets of RPM International Inc. and Subsidiaries (the "Company") as of May 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2005. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit indudes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also indudes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We bellieve that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2005 and 2004 and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2005, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of May 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 7, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

July 7, 2005,
except as to Note K,
which is as of July 22, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K Subsequent Events

On July 22, 2005, our Tremco subsidiary entered into a definitive purchase agreement to acquire Illbruck Sealant Systems ("Illbruck"). Illbruck, located in Leverkusen, Germany, is a provider of high-performance sealant and installation systems. With sales of $190.0 million, the acquisition will increase RPM's global presence in core waterproofing and sealants system technologies. The acquisition is expected to be finalized by early September, pending appropriate European government approval at which point Illbruck will be a wholly-owned subsidiary.

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

7.55 Section 404(a) of the Sarbanes-Oxley Act of 2002 requires that management of a public company assess the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year, and to include in the company's annual report management's conclusions as to the effectiveness of the company's internal control structure and procedures. Management is required to state a direct conclusion about whether the company's internal control over financial reporting is effective. Management's report on internal control over financial reporting is required to include the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company;
- A statement identifying the framework used by management to conduct the required assessment of the effectiveness of the company's internal control over financial reporting;
- An assessment of the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year, including an explicit statement as to whether that internal control over financial reporting is effective; and

- A statement that the registered public accounting firm that audited the financial statements included in the annual report has issued an attestation report on the management's assessment of the company's internal control over financial reporting.

7.56 Under section 404(b) of the Sarbanes-Oxley Act of 2002, the auditor that audits the public company's financial statements included in the annual report is required to audit the company's internal control over financial reporting, and attest to and report on management's assessment of the effectiveness of internal control over financial reporting. Thus, the auditor's report on internal control over financial reporting should include two opinions: one on whether management's assessment is fairly stated, and one on the effectiveness of the internal control over financial reporting. AS No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, establishes professional standards governing the auditor's attestation. Accordingly, independent auditors engaged to audit the financial statements of such companies also are required to audit and report on the company's internal control over financial reporting as of the end of such fiscal year. Paragraph 169 of *AS No. 2* allows the auditor to issue a combined report (i.e., one report containing both an opinion on the financial statements and the aforementioned two opinions on internal control over financial reporting), or separate reports on the company's financial statements and on internal control over financial reporting.

7.57 During 2005, 571 of the companies surveyed presented a management's report on internal control over financial reporting. 515 of those companies presented the management report on internal control over financial reporting separate from the general report of management. Accompanying each management's report on internal control was the related auditor's report on internal control over financial reporting. 180 of those companies had the auditor's report on internal control over financial reporting combined with the auditor's report on financial statements. Examples of auditors' reports on internal control over financial reporting and their related management reports follow.

Separate Report on Internal Control

7.58

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Abbott Laboratories

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting dated February 17, 2006, that Abbott Laboratories and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations in internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established In *Interal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Pubic Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 17, 2006, expressed an unqualified opinion on those financial statements.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Abbott Laboratories is responsible for establishing and maintaining adequate internal control over financial reporting. Abbott's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Abbott's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth in *Internal Control—Integrated Framework* Issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2005, the company's internal control over financial reporting was effective based on those criteria.

Abbott's independent registered public accounting firm has issued an audit report on our assessment of the company's internal control over financial reporting.

7.59

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Ceridian Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Ceridian Corporation and subsidiaries (the "Company") did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of a material weakness identified in management's assessment, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ceridian Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment as of December 31, 2005:

> The Company did not have personnel with sufficient technical knowledge to analyze complex multiple element revenue arrangements to ensure that such transactions were accounted for in conformity with U.S. generally accepted accounting principles. Specifically, the Company did not effectively identify and analyze the terms of certain complex multiple element revenue arrangements to ensure timely and accurate financial reporting. As a result, accounting errors were identified related to revenue recognition, resulting in an understatement of deferred income and deferred costs and an overstatement in revenue, cost of revenue, and net earnings in the Company's preliminary 2005 consolidated financial statements. This deficiency resulted in more than a remote likelihood that a material misstatement of the Company's consolidated financial statements would not be prevented or detected.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Ceridian Corporation and subsidiaries as of December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated March

16, 2006, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that Ceridian Corporation and subsidiaries did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Ceridian Corporation and subsidiaries have not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP"), and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations from our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. This assessment identified the following "material weakness" (as defined by the Public Company Accounting Oversight Board or "PCAOB" in its Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements" ("Auditing Standard No. 2")) in internal control over financial reporting as of December 31, 2005:

We did not have personnel with sufficient technical knowledge to analyze complex multiple element revenue arrangements to ensure that such transactions were accounted for in conformity with U.S. GAAP. Specifically, we did not effectively identify and analyze the terms of certain complex multiple element revenue arrangements to ensure timely and accurate financial reporting. As a result, accounting errors were identified related to revenue recognition, resulting in an understatement of deferred income and deferred costs and an overstatement in revenue, cost of revenue, and net earnings in our preliminary 2005 consolidated financial statements. These errors were corrected in our consolidated financial statements prior to issuance. Management has concluded that this deficiency resulted in more than a remote likelihood that a material misstatement of our consolidated financial statements would not have been prevented or detected.

In making our assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework.* Because of the material weakness described above, management concluded that, as of December 31, 2005, our internal control over financial reporting was not effective based on those criteria.

KPMG LLP, our independent registered public accounting firm, has issued an audit report on our assessment of our internal control over financial reporting. This audit report appears on the next page of this Form 10-K.

Combined Report on Financial Statements and Internal Control

7.60

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Arden Group, Inc.

We have completed integrated audits of Arden Group, Inc.'s December 31, 2005 and January 1, 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its January 3, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows, present fairly, in all material respects, the financial position of Arden Group, Inc. and its subsidiaries at December 31, 2005 and January 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making the assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework.* Based on that assessment, management concluded that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report.

GENERAL MANAGEMENT AND SPECIAL PURPOSE COMMITTEE REPORTS

7.61 There were 168 survey companies that presented a Report of Management on Financial Statements. These reports may include:

- Description of management's responsibility for preparing the financial statements,
- Identification of independent auditors,
- Statement about management's representations to the independent auditors,
- Statement about financial records and related data made available to the independent auditors,
- Description of special purpose committees of the Board of Directors,
- General description of the company's system of internal control, and
- Description of the company's code of conduct.

Occasionally, survey companies presented a report of a special purpose committee, such as the Audit Committee or the Compensation Committee.

7.62 Examples of a Report of Management on Financial Statements and certain special purpose committee reports follow.

Report of Management on Financial Statements

7.63

AMETEK, INC. (DEC)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared and is responsible for the integrity of the consolidated financial statements and related information. The statements are prepared in conformity with U.S. generally accepted accounting principles consistently applied and include certain amounts based on management's best estimates and judgments. Historical financial information elsewhere in this summary annual report is consistent with that in the financial statements.

In meeting its responsibility for the reliability of the financial information, management maintains a system of internal accounting and disclosure controls, including an internal audit program. The system of controls provides for appropriate division of responsibility and the application of written policies and procedures. That system, which undergoes continual reevaluation, is designed to provide reasonable assurance that assets are safeguarded and records are adequate for the preparation of reliable financial data.

Management is responsible for establishing and maintaining adequate controls over financial reporting. We maintain a system of internal controls, although there are inherent limitations in the effectiveness of any system of internal controls that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements.

Management recognizes its responsibility for conducting the Company's activities according to the highest standards of personal and corporate conduct. That responsibility is characterized and reflected in a code of business conduct for all employees, and in a Financial Code of Ethics for the Chief Executive Officer and Senior Financial Officers, as well as in other key policy statements publicized throughout the Company.

The Audit Committee of the Board of Directors, which is composed solely of independent directors who are not employees of the Company, meets with the independent registered public accounting firm, the internal auditors, and management to satisfy itself that each is properly discharging its responsibilities. The report of the Audit Committee is included in the Proxy Statement of the Company for its 2006 Annual Meeting. Both the internal auditors and independent registered public accounting firm have direct access to the Audit Committee.

The Company's independent registered public accounting firm, Ernst & Young LLP, is engaged to render an opinion as to whether management's financial statements present fairly, in all material respects, the Company's financial position and results of operations.

Chairman and Chief Executive Officer
Executive Vice President—Chief Financial Officer

Audit Committee Report

7.64

PFIZER INC (DEC)

AUDIT COMMITTEE'S REPORT

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In this context, the Committee has met and held discussions with management and the independent registered public accounting firm regarding the fair and complete presentation of the Company's results and the assessment of the Company's internal control over financial reporting. The Committee has discussed significant accounting policies applied by the Company in its financial statements, as well as alternative treatments. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement of Auditing Standards No. 61, *Communication With Audit Committees.*

In addition, the Committee has reviewed and discussed with the independent registered public accounting firm the auditor's independence from the Company and its management. As part of that review, the Committee received the written disclosures and letter required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees* and by all relevant professional and regulatory standards relating to KPMG's independence from the Company. The Committee also has considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with the auditor's independence. The Committee has concluded that the independent registered public accounting firm is independent from the Company and its management.

The Committee reviewed and discussed Company policies with respect to risk assessment and risk management.

The Committee discussed with the Company's internal auditors and the independent registered public accounting firm the overall scope and plans for their respective audits. The Committee met with the internal auditors and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission. The Committee has selected and the Board of Directors has ratified, subject to shareholder ratification, the selection of the Company's independent registered public accounting firm.

Chair, Audit Committee

Compensation Committee Report

7.65

THE KROGER CO. (JAN)

COMPENSATION COMMITTEE REPORT

The Compensation Committee is composed exclusively of directors who meet the independence standards adopted by the New York Stock Exchange. The Committee is responsible for the approval and administration of the base salary level and bonus compensation programs, as well as the equity incentive program for executive officers.

Kroger's compensation policies are applicable to virtually all levels of its work force, including its executive officers. These policies require Kroger to:

- be competitive in total compensation;
- include, as part of total compensation, opportunities for equity ownership;
- use incentives that offer more than competitive compensation when Kroger achieves superior results; and
- base incentive payments, or annual bonus, on adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"); on identical sales results; on achievement of strategic initiatives and on the extent to which the sales and EBITDA results of designated capital projects exceed a minimum threshold established for those projects.

Kroger's cash compensation for its executive, management, and some hourly employees, consists of two components: (1) base salary, and (2) annual performance-based bonuses. In 2006, a third component, long-term performance-based bonuses for which approximately 140 executives are eligible, was added. Kroger also provides stock-based equity incentive grants to executives, management, and some hourly employees to drive long-term performance and to align the interests of employees with those of shareholders.

In determining compensation levels the Committee considers salary and bonus levels that will attract and retain qualified executives when combined with the other components of Kroger's compensation programs including long-term stock based equity grants. In addition to the bonus programs, the Committee also considers other programs that incorporate performance objectives, the achievement of which should contribute to long-term shareholder value. The Committee establishes salaries for executive officers that generally are at or above the median compensation paid by competitors for comparable positions (where data for comparable positions are available) with an annual bonus potential that, if the annual bonus plan goals are realized, would cause their total cash compensation to be above the median, in the third quartile.

In each of the last several years the Committee has engaged a compensation consultant from Mercer Human Resource Consulting, an executive compensation consulting firm, to perform competitive peer analysis and to determine whether the compensation of the executive officers actually met our compensation philosophy. In conjunction with Kroger, Mercer Human Resource Consulting identified a group of peer retail companies, based primarily on similarity of lines of business, against which officer compensation is measured. Mercer Human Resource Consulting concluded that the total compensation of the executive officers was at or near the median of the peer companies. The Committee has concluded that the compensation consultant is independent, in part because he works exclusively for the Committee and not for management of Kroger.

Base Salary

The Committee determines salaries of the executive officers by evaluating both the most recent comparative peer data available and each officer's role and responsibilities. The Committee reviews individual salaries on an annual basis and bases salary increases on Kroger's overall performance as well as the executive's performance, role and contribution.

Annual Bonuses

A large percentage of employees at all levels, including the executive officers, are eligible to receive a performance-based bonus based on Kroger or unit performance. The Board establishes a bonus potential for the Chief Executive Officer, and the Committee establishes bonus potentials for the other officers based on the level within the organization. Actual payouts, which can exceed 100% of the potential amounts, represent the extent to which performance exceeds the thresholds established by the Committee.

At the Committee's February 27, 2006 meeting, the Committee discussed bonus payments to the executive officers and considered performance as compared to the goals that the Committee established for the 2005 plan year. Based on performance, the Committee determined that Kroger (i) had exceeded its EBITDA objective, (ii) had exceeded its identical sales objective, (iii) had substantially achieved its objective for execution of the strategic plan, and (iv) had exceeded the minimum sales and EBITDA thresholds established for its capital projects. As a result, the Committee determined that the officers had earned 132.094% of their bonus potentials, which was slightly less than the 133.522% applicable to all other eligible employees participating in the corporate bonus plan. The Committee determined that the officers were not eligible to receive certain adjustments that caused the bonus payout for other eligible participants to be higher. The actual payout percentages reflect the extent to which Kroger achieved the 2005 bonus objectives established by the Committee.

Long-Term Bonuses

After reviewing executive compensation with its outside advisors, the Committee determined that the long-term component of Kroger's executive compensation was not competitive. The Committee believes that it is important to provide an incentive to the executive officers to achieve the long-term goals established by the Board by conditioning a portion of compensation on the achievement of those goals. Beginning in 2006, approximately 140 Kroger executives, including the executive officers, are eligible to participate in a performance-based bonus plan designed to reward participants for improving the long-term performance of Kroger. Bonuses are earned based on the extent to which Kroger is successful in (i) improving its performance in four key categories, based on results of customer surveys, and (ii) reducing total operating costs as a percentage of sales, excluding fuel.

The 2006 plan consists of two components. The first component measures the improvements through fiscal year 2009. The second, or phase-in, component, measures the improvements through fiscal year 2007. In both cases, bonus is earned based on the degree to which improvements are achieved. The Committee administers the plan and determines the bonus payout amounts based on achievement of performance criteria.

Equity Based Compensation Grants

Awards based on Kroger's common stock are granted annually to the officers and a large number of other employees. In 2005, Kroger granted 6,801,605 stock options to approximately 13,188 employees, including the executive officers, under Kroger's Long-Term Incentive Plans. The options permit the holder to purchase Kroger common stock at an option price equal to the trading price of Kroger common stock on the date of the grant. The 2005 Plan also provides for other equity-based awards, including restricted stock, and during fiscal year 2005 Kroger awarded 250,800 shares of restricted stock to 135 employees, including some of the executive officers. While historically the overwhelming majority of equity awards have been in the form of non-qualified stock options, in 2006 the Committee intends to begin reducing the number of stock options granted and increasing the number of shares of restricted stock awards without materially affecting the cost of the program.

In determining the total amount to be granted annually to the executive officers, the Committee considers the amount of equity compensation grants already held by the recipient, dilution, the number of shares of common stock outstanding, the level within the organization, the size of equity grants made to the recipient in prior years, practices at peer companies for comparable positions, and the performance of Kroger during the immediately preceding year. The grants in 2005 to all employees represented approximately 1% of shares outstanding at fiscal year end.

Chief Executive Officer's Compensation

The Board of Directors determines the Chief Executive Officer's compensation annually after a review and recommendation by the Committee. In making its recommendation, the Committee considered internal equity and competitor salary data, including data for most of the companies identified in the peer group shown on the performance graph (See p. 26). Based on these factors, the Board determined that Mr. Dillon's existing base compensation of $1,100,000 was fair and reasonable, and did not increase his salary from the levels established in 2004. This placed Mr. Dillon's salary below the median of competitor companies of similar size and complexity as Kroger, as reviewed by Mercer Human Resource Consulting.

The Board established Mr. Dillon's bonus potential effective May 1, 2005, at $1,500,000. His actual payout for the fiscal year was based on a potential of $1,468,750, taking into account his lower bonus potential in effect prior to May 1. At its March 9, 2006 meeting, the Board discussed the bonus payment to Mr. Dillon, and considered the performance of Kroger as compared to the bonus criteria established by the Committee for the 2005 plan year. Based on Kroger's performance, the Committee determined that Kroger (i) had exceeded its EBITDA objective, (ii) had exceeded its identical sales objective, (iii) had substantially achieved its objective for execution of the strategic plan, and (iv) had exceeded the minimum sales and EBITDA thresholds established for its capital projects. As a result, the Board determined that based on Kroger's performance Mr. Dillon earned a bonus of $1,940,131, which represented 132.094% of his bonus potential for fiscal year 2005. This was the same bonus payout as the other executive officers, and slightly less than the 133.522% payout earned by the other participants in the corporate plan. The Committee determined that the officers were not eligible to receive certain adjustments that caused the bonus payout for other eligible participants to be higher.

On May 5, 2005, Mr. Dillon was granted options to purchase 300,000 shares of Kroger common stock at an option price equal to the trading price of Kroger common stock on the date of grant. That grant was made under one of Kroger's broad-based Long-Term Incentive Plans in accordance with the guidelines of the Committee referenced above, and at the same time that options were granted to a large number of other Kroger associates, including some hourly employees.

Mr. Dillon is party to an employment contract that is more particularly described elsewhere in the proxy statement under the section titled "Employment Contracts". That agreement establishes minimum compensation at a level below his total compensation determined in consideration of the factors identified above.

Perquisites

The Committee does not believe it is necessary for the attraction or retention of management talent to provide the officers a substantial amount of compensation in the form of perquisites. In 2005, the only perquisites provided to the officers were personal use of Kroger aircraft for which officers must reimburse Kroger, payments of premiums of life insurance policies and the reimbursement of the tax effects of those payments, reimbursement for the tax effects of participation in a non-qualified retirement plan, and reimbursement of up to $4,500 for financial planning services. Beginning in 2007, Kroger no longer will reimburse officers for financial planning services. The amounts of all of the perquisites are shown in footnotes 1 and 5 to the summary compensation table appearing at page 18.

Internal Equity

The Committee, and the Board in the case of Mr. Dillon, believes that internal equity is an important factor to be considered in establishing compensation for the officers. While the Committee has not established a policy regarding the ratio of total compensation of the Chief Executive Officer to that of the other officers, it does review compensation levels to ensure that appropriate equity exists. The Committee intends to continue to review internal compensation equity and may adopt a formal policy if it deems such adoption would be appropriate.

Review of All Components of Executive Compensation

The Committee has reviewed all components of compensation of Kroger's Chief Executive Officer and the other executive officers, including salary, bonus, equity and long-term incentive compensation, accumulated realized and unrealized stock option gains and restricted stock values, the dollar value to the executive and cost to Kroger of all perquisites and other personal benefits, benefits under Kroger's pension plans, severance benefits under the Kroger Employee Protection Plan, and the earnings and accumulated payout obligations under Kroger's non-qualified deferred compensation program. A tally sheet setting forth all the above components was prepared for and reviewed by the Committee in connection with the Committee's consideration of compensation for the executive officers.

Section 162 (M) of the Internal Revenue Code

The Omnibus Budget Reconciliation Act of 1993 places a $1,000,000 limit on the amount of certain types of compensation for the CEO and the next four most highly compensated officers that is tax deductible by Kroger. Kroger believes that its Long-Term Incentive Plans, under which stock options were granted to the executive officers, comply with the Internal Revenue Service's regulations on the deductibility limit. Accordingly, the compensation expense incurred thereunder related to the options should be deductible. Kroger continues to consider modifications to its other compensation programs based on the regulations. Kroger's policy is, primarily, to design and administer compensation plans that support the achievement of long-term strategic objectives and enhance shareholder value. Where it is material and supports Kroger's compensation philosophy, the Committee also will attempt to maximize the amount of compensation expense that is tax deductible by Kroger.

Conclusion

Based on the Committee's review of executive officer compensation, the Committee finds the total compensation of Kroger's Chief Executive Officer and the other executive officers, in the aggregate, to be fair, reasonable and not excessive. As discussed above, the Committee utilized the services of Mercer Human Resource Consulting to perform competitive peer analysis.

When the Committee considers any component of the total compensation of the executive officers, and when it makes recommendations to the Board regarding the Chief Executive Officer's compensation, the aggregate amounts and mix of all of the components, including accumulated (realized and unrealized) option and restricted stock gains, are taken into consideration in the Committee's decisions.

The Committee and the Board of Directors believe that the caliber and motivation of all of our employees, including our executive leadership, are essential to Kroger's performance. We believe our management compensation programs contribute to our ability to differentiate our performance from others in the marketplace. We will continue to administer our compensation program in a manner that we believe will be in the shareholders' interests.

Compensation Committee:
Chair
Vice Chair

Appendix of 600 Companies

List of 600 Companies on Which Tabulations Are Based

In this edition, companies have been assigned the same number as in the Fifty-ninth (2005) edition. 30 companies in the 2005 edition have been eliminated and their numbers left unused. Replacement companies are selected from the latest listing of Fortune 1000 companies. Companies are listed in alphabetical order. An additional listing in company reference number order follows.

ALPHABETICAL LISTING

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
3Com Corporation	951	5
3M Company	379	12
Abbott Laboratories	10	12
ABM Industries Incorporated	30	10
Acuity Brands, Inc.	1095	8
ADC Telecommunications, Inc.	921	10
Administaff, Inc.	988	12
Advanced Micro Devices, Inc.	652	12
ADVO, Inc.	861	9
Aetna Inc.	989	12
AGCO Corporation	862	12
Air Products and Chemicals, Inc.	16	9
Airgas, Inc.	1030	3
AK Steel Holding Corporation	56	12
Alberto-Culver Company	601	9
Albertson's, Inc.	17	1
Alcoa Inc.	24	12
Allegheny Technologies Incorporated	776	12
Allergan, Inc.	796	12
Alliance One International, Inc.	782	3
Alliant Techsystems Inc.	777	3
Allied Waste Industries, Inc.	922	12
ALLTEL Corporation	1031	12
Altria Group, Inc.	437	12
Amazon.com, Inc.	953	12
Amerada Hess Corporation	26	12
American Biltrite Inc.	28	12
American Greetings Corporation	33	2
American Power Conversion Corporation	1116	12
American Standard Companies Inc.	41	12
Ameron International Corporation	44	11
AMETEK, Inc.	6	12
Amgen Inc.	841	12
Amkor Technology, Inc.	954	12
Ampco-Pittsburgh Corporation	46	12
Amphenol Corporation	842	12
Anadarko Petroleum Corporation	990	12
Analog Devices, Inc.	924	10
Analogic Corporation	48	7
Anheuser-Busch Companies, Inc.	51	12
A. O. Smith Corporation	494	12
Apple Computer, Inc.	52	9
Applied Industrial Technologies, Inc.	955	6
Applied Materials, Inc.	863	10
ARAMARK Corporation	1149	9
Archer Daniels Midland Company	53	6
Arden Group, Inc.	54	12
Arkansas Best Corporation	1072	12
Armstrong Holdings, Inc.	1033	12
Arrow Electronics, Inc.	844	12
ArvinMeritor, Inc.	1073	9
Ashland Inc.	60	9
AT&T Inc.	43	12
Atmel Corporation	864	12
Ault Incorporated	738	5
Autodesk, Inc.	1150	1
Automatic Data Processing, Inc.	865	6
AutoZone, Inc.	991	8
Avaya Inc.	1034	9
Avery Dennison Corporation	604	12
Avnet, Inc.	65	6
Avon Products, Inc.	66	12
Badger Meter, Inc.	68	12
Baker Hughes Incorporated	70	12
Baldor Electric Company	778	12
Ball Corporation	71	12
Banta Corporation	806	12
Barnes & Noble, Inc.	992	1
Barnes Group Inc.	605	12
Bassett Furniture Industries, Incorporated	606	11
Baxter International Inc.	75	12
BE Aerospace, Inc.	866	12
Beazer Homes USA, Inc.	1151	9
Beckman Coulter, Inc.	846	12
Becton, Dickinson and Company	78	9
BellSouth Corporation	958	12
Bemis Company, Inc.	81	12
Best Buy Co., Inc.	993	2
BJ Services Company	896	9
The Black & Decker Corporation	85	12

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Company Name	Company Reference Number	Month of Fiscal Year End*
Blount International, Inc.	699	12
BMC Software, Inc.	1117	3
The Boeing Company	87	12
Boston Scientific Corporation	867	12
Bowater Incorporated	607	12
Bowne & Co., Inc.	91	12
Boyd Gaming Corporation	1152	12
Briggs & Stratton Corporation	93	6
Brinker International, Inc.	1074	6
Bristol-Myers Squibb Company	94	12
Brown Shoe Company, Inc.	97	1
Brown-Forman Corporation	657	4
Brunswick Corporation	99	12
Burlington Coat Factory Warehouse Corporation	959	5
Cablevision Systems Corporation	994	12
Cabot Corporation	108	9
CACI International Inc.	1153	6
Campbell Soup Company	110	7
Career Education Corporation	1154	12
Caremark Rx, Inc.	995	12
Carlisle Companies Incorporated	897	12
Carpenter Technology Corporation	610	6
Caterpillar Inc.	113	12
CBRL Group, Inc.	1118	7
CBS Corporation	1155	12
CDW Corporation	996	12
Cendant Corporation	1036	12
Centex Corporation	836	3
CenturyTel, Inc.	1037	12
Cenveo, Inc.	1119	12
Ceridian Corporation	145	12
Champion Enterprises, Inc.	740	12
Chemtura Corporation	1156	12
Chesapeake Corporation	659	12
Chevron Corporation	121	12
Chiquita Brands International, Inc.	557	12
Ciena Corporation	1039	10
Cigna Corporation	997	12
Cintas Corporation	1040	5
Circuit City Stores, Inc.	868	2
Cisco Systems, Inc.	869	7
Citizens Communications Company	1041	12
CLARCOR Inc.	658	11
Clear Channel Communications, Inc.	998	12
Cleveland-Cliffs Inc	130	12
The Clorox Company	131	6
CNF Inc.	1075	12
Coca-Cola Bottling Co. Consolidated	1076	12
The Coca-Cola Company	133	12
Coca-Cola Enterprises Inc.	660	12
Coherent, Inc.	742	9
Colgate-Palmolive Company	135	12
Comcast Corporation	999	12
Comdisco Holding Company, Inc.	1000	9
Commercial Metals Company	140	8
Computer Associates International, Inc.	925	3
Computer Sciences Corporation	848	3
ConAgra Foods, Inc.	142	5
ConocoPhillips	438	12
Constellation Brands, Inc.	1097	2
Convergys Corporation	1098	12
Cooper Cameron Corporation	900	12
Cooper Industries, Ltd.	146	12
Cooper Tire & Rubber Company	849	12
Corn Products International, Inc.	1099	12
Corning Incorporated	149	12
Costco Wholesale Corporation	961	8
Courier Corporation	150	9
Coventry Health Care, Inc.	1157	12
Cox Communications, Inc.	1001	12
Crane Co.	152	12
C. R. Bard, Inc.	845	12
Crown Holdings, Inc.	154	12
CSP Inc.	107	9
CTS Corporation	701	12
Cummins Inc.	1100	12
Curtiss-Wright Corporation	158	12
CVS Corporation	372	12
Dana Corporation	161	12
Danaher Corporation	664	12
Darden Restaurants, Inc.	1043	5
Datascope Corp.	927	6
Dean Foods Company	166	12
Deere & Company	167	10
Del Monte Foods Company	962	4
Dell Inc.	963	1
Deluxe Corporation	168	12
Devon Energy Corporation	1120	12
Diebold, Incorporated	1101	12
Dillard's, Inc.	850	1
The Dixie Group, Inc.	665	12
Dollar General Corporation	1102	1
Domino's Pizza, Inc.	1121	12
Donaldson Company, Inc.	744	7
Dover Corporation	176	12
The Dow Chemical Company	177	12
Dow Jones & Company, Inc.	178	12
D.R. Horton, Inc.	1103	9
The Dun & Bradstreet Corporation	182	12
Earthlink, Inc.	1078	12
The Eastern Company	190	12
Eastman Chemical Company	871	12
Eastman Kodak Company	191	12
Eaton Corporation	192	12
eBay Inc.	1104	12
Ecolab Inc.	617	12
E. I. du Pont de Nemours and Company	184	12
El Paso Corporation	1122	12
Electronic Arts Inc.	1079	3
Electronic Data Systems Corporation	964	12
Eli Lilly and Company	339	12
ElkCorp	194	6
EMC Corporation	1005	12
EMCOR Group, Inc.	901	12
Emerson Electric Co.	195	9
Energizer Holdings, Inc.	1158	9
Enesco Group, Inc.	510	12

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Company Name	Company Reference Number	Month of Fiscal Year End*
Engelhard Corporation	198	12
Equifax Inc.	902	12
The Estee Lauder Companies Inc.	872	6
Exide Technologies	873	3
Exxon Mobil Corporation	202	12
The Fairchild Corporation	656	9
Federal Screw Works	747	6
Federal-Mogul Corporation	208	12
Federated Department Stores, Inc.	209	1
First Data Corporation	851	12
Fiserv, Inc.	1044	12
Fleetwood Enterprises, Inc.	212	4
Flowers Foods, Inc.	1080	12
Fluor Corporation	216	12
FMC Corporation	203	12
Foot Locker, Inc.	596	1
Ford Motor Company	219	12
Fortune Brands, Inc.	29	12
Foster Wheeler Ltd.	221	12
Freeport-McMoRan Copper & Gold Inc.	965	12
Furniture Brands International, Inc.	296	12
Gannett Co., Inc.	228	12
The Gap, Inc.	1008	1
Gateway, Inc.	874	12
GenCorp Inc.	230	11
General Dynamics Corporation	232	12
General Electric Company	233	12
General Mills, Inc.	237	5
General Motors Corporation	238	12
Genuine Parts Company	242	12
Georgia Gulf Corporation	748	12
Giant Industries, Inc.	1081	12
GlobalSantaFe Corporation	929	12
Gold Kist Inc.	1159	9
Golden Enterprises, Inc.	247	5
Goodrich Corporation	1045	12
The Goodyear Tire & Rubber Company	249	12
Google Inc.	1123	12
The Great Atlantic & Pacific Tea Company, Inc.	254	2
Greif, Inc.	256	10
Griffon Corporation	1083	9
Halliburton Company	264	12
Harley-Davidson, Inc.	673	12
Harman International Industries, Incorporated	1105	6
Harrah's Entertainment, Inc.	829	12
Harris Corporation	269	6
Harsco Corporation	270	12
Hartmarx Corporation	271	11
Hasbro, Inc.	623	12
H.B. Fuller Company	621	11
HCA Inc.	899	12
Health Net, Inc.	1010	12
Hecla Mining Company	273	12
Hercules Incorporated	276	12
Herman Miller, Inc.	377	5
The Hershey Company	277	12
Hewitt Associates, Inc.	1124	9
Hewlett-Packard Company	278	10
Hillenbrand Industries, Inc.	624	9
Hilton Hotels Corporation	1011	12
H.J. Heinz Company	275	4
HNI Corporation	263	12
The Home Depot, Inc.	905	1
Honeywell International Inc.	20	12
Hormel Foods Corporation	282	10
Hovnanian Enterprises, Inc.	1125	10
Hubbell Incorporated	930	12
Humana Inc.	285	12
Hurco Companies, Inc.	287	10
IAC/InterActiveCorp	985	12
IDT Corporation	1046	7
IKON Office Solutions, Inc.	18	9
Illinois Tool Works Inc.	625	12
Ingersoll-Rand Company Limited	292	12
Ingram Micro Inc.	906	12
Intel Corporation	295	12
Interface, Inc.	753	12
Intergraph Corporation	801	12
Intermec, Inc.	947	12
International Business Machines Corporation	298	12
International Flavors & Fragrances Inc.	627	12
International Paper Company	302	12
Intuit Inc.	1106	7
Iomega Corporation	931	12
Iron Mountain Incorporated	1126	12
ITT Industries, Inc.	291	12
Jabil Circuit, Inc.	1012	8
Jack in the Box Inc.	1160	9
Jacobs Engineering Group Inc.	754	9
Jacuzzi Brands, Inc.	948	9
J. C. Penney Company, Inc.	428	1
JDS Uniphase Corporation	1047	6
JLG Industries, Inc.	305	7
The J. M. Smucker Company	917	4
Johnson & Johnson	308	12
Johnson Controls, Inc.	309	9
Jones Apparel Group, Inc.	878	12
Joy Global Inc.	268	10
Kaman Corporation	629	12
KB Home	967	11
Kellogg Company	317	12
Kellwood Company	838	1
Kelly Services, Inc.	318	12
Kerr-McGee Corporation	320	12
Kimball International, Inc.	853	6
Kimberly-Clark Corporation	324	12
KLA-Tencor Corporation	932	6
Knape & Vogt Manufacturing Company	326	6
Knight-Ridder, Inc.	327	12
Kohl's Corporation	933	1
The Kroger Co.	329	1
La-Z-Boy Incorporated	879	4
LaBarge, Inc.	332	6
Lafarge North America Inc.	678	12
Lam Research Corporation	880	6

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
The Lamson & Sessions Co.	713	12
Lance, Inc.	854	12
Las Vegas Sands Corp.	1161	12
L. B. Foster Company	669	12
LEAR Corporation	1013	12
Lee Enterprises, Incorporated	336	9
Leggett & Platt, Incorporated	337	12
Lennar Corporation	1014	11
Lennox International Inc.	1127	12
Leucadia National Corporation	1128	12
Lexmark International, Inc.	908	12
Liberty Media Corporation	1129	12
Liz Claiborne, Inc.	611	12
Lockheed Martin Corporation	341	12
Longs Drug Stores Corporation	1130	1
Louisiana-Pacific Corporation	824	12
Lowe's Companies, Inc.	344	1
The L.S. Starrett Company	512	6
LSI Logic Corporation	907	12
The Lubrizol Corporation	345	12
Lucent Technologies Inc.	968	9
Lufkin Industries, Inc.	714	12
Lynch Corporation	348	12
Lyondell Chemical Company	757	12
Magnetek, Inc.	758	6
The Manitowoc Company, Inc.	1084	12
Manpower Inc.	855	12
Marriott International, Inc.	1015	12
Masco Corporation	360	12
Mattel, Inc.	361	12
Maxim Integrated Products, Inc.	1049	6
MAXXAM Inc.	760	12
Maytag Corporation	363	12
McCormick & Company, Incorporated	364	11
McDermott International, Inc.	365	12
McDonald's Corporation	366	12
The McGraw-Hill Companies, Inc.	368	12
McKesson Corporation	369	3
MeadWestvaco Corporation	1109	12
Media General, Inc.	631	12
Medtronic, Inc.	371	4
Merck & Co., Inc.	373	12
Meredith Corporation	374	6
Meritage Home Corporation	1162	12
Merrimac Industries, Inc.	882	12
Met-Pro Corporation	375	1
Mettler-Toledo International Inc.	1086	12
Michaels Stores, Inc.	1131	1
Micron Technology, Inc.	787	8
Microsoft Corporation	825	6
Milacron Inc.	127	12
Mohawk Industries, Inc.	857	12
Molex Incorporated	716	6
Molson Coors Brewing Company	147	12
Monsanto Company	383	8
Motorola, Inc.	387	12
MPS Group, Inc.	1050	12
Murphy Oil Corporation	390	12
NACCO Industries, Inc.	403	12
Nash Finch Company	1017	12
Nashua Corporation	761	12
National Presto Industries, Inc.	397	12
National Semiconductor Corporation	398	5
National Oilwell Varco, Inc.	1132	12
Nature Vision, Inc.	686	12
NCR Corporation	392	12
Network Appliance, Inc.	1163	4
The New York Times Company	400	12
Newell Rubbermaid Inc.	680	12
NewMarket Corporation	199	12
Newmont Mining Corporation	936	12
News Corporation	1164	6
NIKE, Inc.	401	5
Noble Energy, Inc.	910	12
Nordstrom, Inc.	911	1
Northrop Grumman Corporation	405	12
Novell, Inc.	839	10
Novellus Systems, Inc.	1052	12
Nucor Corporation	633	12
NVR, Inc.	1110	12
Occidental Petroleum Corporation	408	12
Office Depot, Inc.	970	12
Olin Corporation	411	12
Omnicom Group Inc.	682	12
Oracle Corporation	972	5
Outback Steakhouse, Inc.	1133	12
Owens-Illinois, Inc.	416	12
Oxford Industries, Inc.	417	5
PACCAR Inc	419	12
Pall Corporation	421	7
Parker Hannifin Corporation	424	6
Pathmark Stores, Inc.	1111	1
Paychex, Inc.	1053	5
Peabody Energy Corporation	1134	12
Peerless Mfg. Co.	790	6
Pentair, Inc.	684	12
The Pepsi Bottling Group, Inc.	1019	12
PepsiAmericas, Inc.	288	12
PepsiCo, Inc.	432	12
PerkinElmer, Inc.	187	12
Perot Systems Corporation	1054	12
Pfizer Inc	435	12
Phelps Dodge Corporation	436	12
Phillips-Van Heusen Corporation	634	1
Pilgrim's Pride Corporation	913	9
Pitney Bowes Inc.	441	12
Plum Creek Timber Company, Inc.	1135	12
Polaris Industries Inc.	883	12
Polo Ralph Lauren Corporation	974	3
PolyOne Corporation	966	12
Potlatch Corporation	446	12
PPG Industries, Inc.	418	12
Praxair, Inc.	828	12
Precision Castparts Corp.	975	3
PRIMEDIA Inc.	912	12
The Procter & Gamble Company	451	6
Pulte Homes, Inc.	1021	12
QUALCOMM Incorporated	914	9

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Company Name	Company Reference Number	Month of Fiscal Year End*
Quanex Corporation	455	10
Quantum Corporation	884	3
RadioShack Corporation	528	12
Raytheon Company	461	12
The Reader's Digest Association, Inc.	792	6
Regal Entertainment Group	1087	12
Republic Services, Inc.	976	12
Retail Ventures, Inc.	1165	1
Reynolds American, Inc.	1023	12
The Reynolds and Reynolds Company	939	9
Rite Aid Corporation	886	2
Robbins & Myers, Inc.	764	8
Robert Half International Inc.	977	12
Rock-Tenn Company	915	9
Rockwell Automation, Inc.	469	9
Rockwell Collins, Inc.	1056	9
Rohm and Haas Company	470	12
The Rowe Companies	471	11
RPM International Inc.	1057	5
R.R. Donnelley & Sons Company	175	12
Ruddick Corporation	811	9
Russell Corporation	832	12
Ryder System, Inc.	1088	12
Ryerson Inc.	293	12
The Ryland Group, Inc.	1166	12
Sabre Holdings Corporation	1167	12
Safeway Inc.	478	12
Sanmina-SCI Corporation	1024	9
Sara Lee Corporation	479	6
Schering-Plough Corporation	481	12
Schlumberger Limited	482	12
Scientific Industries, Inc.	765	6
The Scotts Miracle-Gro Company	833	9
Seaboard Corporation	858	12
Sealed Air Corporation	1136	12
Sealy Mattress Corporation	1168	11
Sensient Technologies Corporation	814	12
Sequa Corporation	519	12
Service Corporation International	487	12
The ServiceMaster Company	940	12
The Shaw Group Inc.	1169	8
The Sherwin-Williams Company	490	12
Silicon Graphics, Inc.	981	6
Skyworks Solutions, Inc.	23	9
Smith International, Inc.	941	12
Smithfield Foods, Inc.	690	4
Smurfit-Stone Container Corporation	628	12
Snap-on Incorporated	496	12
Solectron Corporation	888	8
Sonoco Products Company	691	12
Span-America Medical Systems, Inc.	834	9
Sparton Corporation	498	6
Spectrum Brands, Inc.	1170	9
Spectrum Control, Inc.	499	11
Spherion Corporation	1059	12
SPX Corporation	642	12
St. Jude Medical, Inc.	1112	12
Standard Motor Products, Inc.	507	12
The Standard Register Company	509	12

Company Name	Company Reference Number	Month of Fiscal Year End*
Standex International Corporation	767	6
The Stanley Works	511	12
Staples, Inc.	983	1
Starbucks Corporation	984	9
Starwood Hotels & Resorts Worldwide, Inc.	1060	12
Steel Dynamics, Inc.	1137	12
Steel Technologies Inc.	723	9
Steelcase Inc.	942	2
Stewart & Stevenson Services, Inc.	768	1
Stryker Corporation	1061	12
Sun Microsystems, Inc.	769	6
SunGard Data Systems Inc.	1113	12
Sunoco, Inc.	520	12
SUPERVALU INC.	522	2
Swift Transportation Co., Inc.	1089	12
Sybase, Inc.	889	12
Symantec Corporation	1171	3
Symbol Technologies, Inc.	1114	12
Sysco Corporation	887	6
Target Corporation	165	1
Tasty Baking Company	529	12
Tech Data Corporation	1026	1
Tecumseh Products Company	530	12
Tektronix, Inc.	794	5
Teleflex Incorporated	1138	12
Tellabs, Inc.	944	12
Temple-Inland Inc.	532	12
Tenet Healthcare Corporation	1027	12
Tenneco Inc.	534	12
Teradyne, Inc.	890	12
Terex Corporation	1172	12
Terra Industries Inc.	676	12
Tesoro Corporation	535	12
Texas Industries, Inc.	725	5
Texas Instruments Incorporated	537	12
Textron Inc.	538	12
Thermo Electron Corporation	813	12
Thomas & Betts Corporation	771	12
Thor Industries, Inc.	1090	7
The Timberland Company	1139	12
Time Warner Inc.	923	12
The Timken Company	542	12
The TJX Companies, Inc.	770	1
Toll Brothers, Inc.	1140	10
The Toro Company	726	10
Toys"R"Us, Inc.	772	1
TransTechnology Corporation	727	3
Tribune Company	547	12
Trinity Industries, Inc.	646	12
Tupperware Corporation	891	12
Twin Disc, Incorporated	728	6
Tyler Technologies, Inc.	549	12
Tyson Foods, Inc.	550	9
Unifi, Inc.	553	6
Unisys Corporation	102	12
United States Steel Corporation	561	12
United Stationers Inc.	1028	12
United Technologies Corporation	564	12

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
UnitedHealth Group Incorporated	859	12
Universal Corporation	566	3
Universal Forest Products, Inc.	949	12
Universal Health Services, Inc.	1064	12
Univision Communications Inc.	1141	12
URS CORPORATION	1142	10
USG Corporation	552	12
UST Inc.	563	12
UTStarcom, Inc.	1143	12
Valero Energy Corporation	647	12
Varian Medical Systems, Inc.	571	9
VeriSign, Inc.	1173	12
Verizon Communications Inc.	1029	12
VF Corporation	570	12
Viacom Inc.	920	12
Viad Corp	893	12
Vishay Intertechnology, Inc.	731	12
Visteon Corporation	1144	12
Vulcan Materials Company	573	12
Wal-Mart Stores, Inc.	648	1
Walgreen Co.	575	8
The Walt Disney Company	174	9
Walter Industries, Inc.	1174	12
The Warnaco Group, Inc.	1145	12
Warner Music Group Corp.	1175	9
Washington Group International, Inc.	1176	12
The Washington Post Company	649	12
Waste Management, Inc.	580	12
Wausau Paper Corp.	581	12
Weatherford International Ltd.	950	12
Weis Markets, Inc.	1177	12
Wellpoint, Inc.	1146	12
Wendy's International, Inc.	1115	12
Werner Enterprises, Inc.	1066	12
Western Digital Corporation	733	6
Weyerhaeuser Company	586	12
Wheeling-Pittsburgh Corporation	1147	12
Whirlpool Corporation	588	12
Whole Foods Market, Inc.	1148	9
The Williams Companies, Inc.	1067	12
Winn-Dixie Stores, Inc.	593	6
Winnebago Industries, Inc.	594	8
Wm. Wrigley Jr. Company	597	12
Wolverine World Wide, Inc.	734	12
Worthington Industries, Inc.	735	5
W. R. Grace & Co.	252	12
W.W. Grainger, Inc.	253	12
Wyeth	35	12
Xerox Corporation	1093	12
Xilinx, Inc.	1069	3
XO Holdings, Inc.	1070	12
Yum! Brands, Inc.	1094	12
Zimmer Holdings, Inc.	1178	12

COMPANIES INCLUDED IN FIFTY-NINTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

Company Name	*Company Reference Number*
Anacomp, Inc.	696
Bausch & Lomb Incorporated	74
Burlington Resources Inc.	700
Caesars Entertainment, Inc.	1018
Charter Communications, Inc.	1038
Crompton Corporation	1077
Georgia-Pacific Corporation	243
The Gillette Company	246
Guidant Corporation	904
Hughes Supply, Inc.	283
Juno Lighting, Inc.	712
Marsh Supermarkets, Inc.	1048
Maxtor Corporation	1085
The May Department Stores Company	362
Navistar International Corporation	299
Nextel Communications, Inc.	1051
Quintiles Transnational Corp.	1055
Reebok International Ltd.	885
Saucony, Inc.	675
SBC Communications Inc.	979
Scientific-Atlanta, Inc.	1058
Sears, Roebuck and Co.	486
Sprint Corporation	1025
Standard Commercial Corporation	812
Storage Technology Corporation	804
Trump Hotels & Casino Resorts, Inc.	1062
Unocal Corporation	568
Varco International, Inc.	1091
Wyndham International, Inc.	1068
York International Corporation	650

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

NUMERICAL LISTING

Company Reference Number	Company Name	Month of Fiscal Year End*
6	AMETEK, Inc.	12
10	Abbott Laboratories	12
16	Air Products and Chemicals, Inc.	9
17	Albertson's, Inc.	1
18	IKON Office Solutions, Inc.	9
20	Honeywell International Inc.	12
23	Skyworks Solutions, Inc.	9
24	Alcoa Inc.	12
26	Amerada Hess Corporation	12
28	American Biltrite Inc.	12
29	Fortune Brands, Inc.	12
30	ABM Industries Incorporated	10
33	American Greetings Corporation	2
35	Wyeth	12
41	American Standard Companies Inc.	12
43	AT&T Inc.	12
44	Ameron International Corporation	11
46	Ampco-Pittsburgh Corporation	12
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	AK Steel Holding Corporation	12
60	Ashland Inc.	9
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	12
71	Ball Corporation	12
75	Baxter International Inc.	12
78	Becton, Dickinson and Company	9
81	Bemis Company, Inc.	12
85	The Black & Decker Corporation	12
87	The Boeing Company	12
91	Bowne & Co., Inc.	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Squibb Company	12
97	Brown Shoe Company, Inc.	1
99	Brunswick Corporation	12
102	Unisys Corporation	12
107	CSP Inc.	9
108	Cabot Corporation	9
110	Campbell Soup Company	7
113	Caterpillar Inc.	12
121	Chevron Corporation	12
127	Milacron Inc.	12
130	Cleveland-Cliffs Inc	12
131	The Clorox Company	6
133	The Coca-Cola Company	12
135	Colgate-Palmolive Company	12
140	Commercial Metals Company	8
142	ConAgra Foods, Inc.	5
145	Ceridian Corporation	12
146	Cooper Industries, Ltd.	12
147	Molson Coors Brewing Company	12
149	Corning Incorporated	12
150	Courier Corporation	9
152	Crane Co.	12
154	Crown Holdings, Inc.	12
158	Curtiss-Wright Corporation	12
161	Dana Corporation	12
165	Target Corporation	1
166	Dean Foods Company	12
167	Deere & Company	10
168	Deluxe Corporation	12
174	The Walt Disney Company	9
175	R.R. Donnelley & Sons Company	12
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, Inc.	12
182	The Dun & Bradstreet Corporation	12
184	E. I. du Pont de Nemours and Company	12
187	PerkinElmer, Inc.	12
190	The Eastern Company	12
191	Eastman Kodak Company	12
192	Eaton Corporation	12
194	ElkCorp	6
195	Emerson Electric Co.	9
198	Engelhard Corporation	12
199	NewMarket Corporation	12
202	Exxon Mobil Corporation	12
203	FMC Corporation	12
208	Federal-Mogul Corporation	12
209	Federated Department Stores, Inc.	1
212	Fleetwood Enterprises, Inc.	4
216	Fluor Corporation	12
219	Ford Motor Company	12
221	Foster Wheeler Ltd.	12
228	Gannett Co., Inc.	12
230	GenCorp Inc.	11
232	General Dynamics Corporation	12
233	General Electric Company	12
237	General Mills, Inc.	5
238	General Motors Corporation	12
242	Genuine Parts Company	12
247	Golden Enterprises, Inc.	5
249	The Goodyear Tire & Rubber Company	12
252	W. R. Grace & Co.	12
253	W.W. Grainger, Inc.	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
256	Greif, Inc.	10
263	HNI Corporation	12
264	Halliburton Company	12
268	Joy Global Inc.	10
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
273	Hecla Mining Company	12
275	H.J. Heinz Company	4

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
276	Hercules Incorporated	12
277	The Hershey Company	12
278	Hewlett-Packard Company	10
282	Hormel Foods Corporation	10
285	Humana Inc.	12
287	Hurco Companies, Inc.	10
288	PepsiAmericas, Inc.	12
291	ITT Industries, Inc.	12
292	Ingersoll-Rand Company Limited	12
293	Ryerson Inc.	12
295	Intel Corporation	12
296	Furniture Brands International, Inc.	12
298	International Business Machines Corporation	12
302	International Paper Company	12
305	JLG Industries, Inc.	7
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
317	Kellogg Company	12
318	Kelly Services, Inc.	12
320	Kerr-McGee Corporation	12
324	Kimberly-Clark Corporation	12
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder, Inc.	12
329	The Kroger Co.	1
332	LaBarge, Inc.	6
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
339	Eli Lilly and Company	12
341	Lockheed Martin Corporation	12
344	Lowe's Companies, Inc.	1
345	The Lubrizol Corporation	12
348	Lynch Corporation	12
360	Masco Corporation	12
361	Mattel, Inc.	12
363	Maytag Corporation	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	12
366	McDonald's Corporation	12
368	The McGraw-Hill Companies, Inc.	12
369	McKesson Corporation	3
371	Medtronic, Inc.	4
372	CVS Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
377	Herman Miller, Inc.	5
379	3M Company	12
383	Monsanto Company	8
387	Motorola, Inc.	12
390	Murphy Oil Corporation	12
392	NCR Corporation	12
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
400	The New York Times Company	12
401	NIKE, Inc.	5
403	NACCO Industries, Inc.	12
405	Northrop Grumman Corporation	12
408	Occidental Petroleum Corporation	12
411	Olin Corporation	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
418	PPG Industries, Inc.	12
419	PACCAR Inc	12
421	Pall Corporation	7
424	Parker Hannifin Corporation	6
428	J. C. Penney Company, Inc.	1
432	PepsiCo, Inc.	12
435	Pfizer Inc	12
436	Phelps Dodge Corporation	12
437	Altria Group, Inc.	12
438	ConocoPhillips	12
441	Pitney Bowes Inc.	12
446	Potlatch Corporation	12
451	The Procter & Gamble Company	6
455	Quanex Corporation	10
461	Raytheon Company	12
469	Rockwell Automation, Inc.	9
470	Rohm and Haas Company	12
471	The Rowe Companies	11
478	Safeway Inc.	12
479	Sara Lee Corporation	6
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
487	Service Corporation International	12
490	The Sherwin-Williams Company	12
494	A. O. Smith Corporation	12
496	Snap-on Incorporated	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
507	Standard Motor Products, Inc.	12
509	The Standard Register Company	12
510	Enesco Group, Inc.	12
511	The Stanley Works	12
512	The L.S. Starrett Company	6
519	Sequa Corporation	12
520	Sunoco, Inc.	12
522	SUPERVALU INC.	2
528	RadioShack Corporation	12
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
532	Temple-Inland Inc.	12
534	Tenneco Inc.	12
535	Tesoro Corporation	12
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
542	The Timken Company	12
547	Tribune Company	12
549	Tyler Technologies, Inc.	12
550	Tyson Foods, Inc.	9
552	USG Corporation	12
553	Unifi, Inc.	6
557	Chiquita Brands International, Inc.	12
561	United States Steel Corporation	12
563	UST Inc.	12
564	United Technologies Corporation	12
566	Universal Corporation	3
570	VF Corporation	12
571	Varian Medical Systems, Inc.	9

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Company Reference Number	Company Name	Month of Fiscal Year End*
573	Vulcan Materials Company	12
575	Walgreen Co.	8
580	Waste Management, Inc.	12
581	Wausau Paper Corp.	12
586	Weyerhaeuser Company	12
588	Whirlpool Corporation	12
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
596	Foot Locker, Inc.	1
597	Wm. Wrigley Jr. Company	12

COMPANIES ADDED FOR 1987 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
601	Alberto-Culver Company	9
604	Avery Dennison Corporation	12
605	Barnes Group Inc.	12
606	Bassett Furniture Industries, Incorporated	11
607	Bowater Incorporated	12
610	Carpenter Technology Corporation	6
611	Liz Claiborne, Inc.	12
617	Ecolab Inc.	12
621	H.B. Fuller Company	11
623	Hasbro, Inc.	12
624	Hillenbrand Industries, Inc.	9
625	Illinois Tool Works Inc.	12
627	International Flavors & Fragrances Inc.	12
628	Smurfit-Stone Container Corporation	12
629	Kaman Corporation	12
631	Media General, Inc.	12
633	Nucor Corporation	12
634	Phillips-Van Heusen Corporation	1
642	SPX Corporation	12
646	Trinity Industries, Inc.	12
647	Valero Energy Corporation	12
648	Wal-Mart Stores, Inc.	1
649	The Washington Post Company	12

COMPANIES ADDED FOR 1988 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
652	Advanced Micro Devices, Inc.	12
656	The Fairchild Corporation	9
657	Brown-Forman Corporation	4
658	CLARCOR Inc.	11
659	Chesapeake Corporation	12
660	Coca-Cola Enterprises Inc.	12
664	Danaher Corporation	12
665	The Dixie Group, Inc.	12
669	L. B. Foster Company	12
673	Harley-Davidson, Inc.	12
676	Terra Industries Inc.	12
678	Lafarge North America Inc.	12
680	Newell Rubbermaid Inc.	12
682	Omnicom Group Inc.	12
684	Pentair, Inc.	12
686	Nature Vision, Inc.	12
690	Smithfield Foods, Inc.	4
691	Sonoco Products Company	12

COMPANIES ADDED FOR 1989 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
699	Blount International, Inc.	12
701	CTS Corporation	12
713	The Lamson & Sessions Co.	12
714	Lufkin Industries, Inc.	12
716	Molex Incorporated	6
723	Steel Technologies Inc.	9
725	Texas Industries, Inc.	5
726	The Toro Company	10
727	TransTechnology Corporation	3
728	Twin Disc, Incorporated	6
731	Vishay Intertechnology, Inc.	12
733	Western Digital Corporation	6
734	Wolverine World Wide, Inc.	12
735	Worthington Industries, Inc.	5

COMPANIES ADDED FOR 1990 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
738	Ault Incorporated	5
740	Champion Enterprises, Inc.	12
742	Coherent, Inc.	9
744	Donaldson Company, Inc.	7
747	Federal Screw Works	6
748	Georgia Gulf Corporation	12
753	Interface, Inc.	12
754	Jacobs Engineering Group Inc.	9
757	Lyondell Chemical Company	12
758	Magnetek, Inc.	6
760	MAXXAM Inc.	12
761	Nashua Corporation	12
764	Robbins & Myers, Inc.	8
765	Scientific Industries, Inc.	6
767	Standex International Corporation	6
768	Stewart & Stevenson Services, Inc.	1
769	Sun Microsystems, Inc.	6
770	The TJX Companies, Inc.	1
771	Thomas & Betts Corporation	12
772	Toys"R"Us, Inc.	1

COMPANIES ADDED FOR 1991 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
776	Allegheny Technologies Incorporated	12
777	Alliant Techsytems Inc.	3
778	Baldor Electric Company	12
782	Alliance One International, Inc.	3
787	Micron Technology, Inc.	8
790	Peerless Mfg. Co.	6
792	The Reader's Digest Association, Inc.	6
794	Tektronix, Inc.	5

COMPANIES ADDED FOR 1992 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
796	Allergan, Inc.	12
801	Intergraph Corporation	12

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
COMPANIES ADDED FOR 1993 EDITION		
806	Banta Corporation	12
811	Ruddick Corporation	9
813	Thermo Electron Corporation	12
814	Sensient Technologies Corporation	12
COMPANIES ADDED FOR 1994 EDITION		
824	Louisiana-Pacific Corporation	12
825	Microsoft Corporation	6
828	Praxair, Inc.	12
829	Harrah's Entertainment, Inc.	12
832	Russell Corporation	12
833	The Scotts Miracle-Gro Company	9
834	Span-America Medical Systems, Inc.	9
COMPANIES ADDED FOR 1995 EDITION		
836	Centex Corporation	3
838	Kellwood Company	1
839	Novell, Inc.	10
COMPANIES ADDED FOR 1996 EDITION		
841	Amgen Inc.	12
842	Amphenol Corporation	12
844	Arrow Electronics, Inc.	12
845	C. R. Bard, Inc.	12
846	Beckman Coulter, Inc.	12
848	Computer Sciences Corporation	3
849	Cooper Tire & Rubber Company	12
850	Dillard's, Inc.	1
851	First Data Corporation	12
853	Kimball International, Inc.	6
854	Lance, Inc.	12
855	Manpower Inc.	12
857	Mohawk Industries, Inc.	12
858	Seaboard Corporation	12
859	UnitedHealth Group Incorporated	12
COMPANIES ADDED FOR 1997 EDITION		
861	ADVO, Inc.	9
862	AGCO Corporation	12
863	Applied Materials, Inc.	10
864	Atmel Corporation	12
865	Automatic Data Processing, Inc.	6
866	BE Aerospace, Inc.	12
867	Boston Scientific Corporation	12
868	Circuit City Stores, Inc.	2
869	Cisco Systems, Inc.	7
871	Eastman Chemical Company	12
872	The Estee Lauder Companies Inc.	6
873	Exide Technologies	3
874	Gateway, Inc.	12
878	Jones Apparel Group, Inc.	12
879	La-Z-Boy Incorporated	4
880	Lam Research Corporation	6
882	Merrimac Industries, Inc.	12
883	Polaris Industries Inc.	12
884	Quantum Corporation	3
886	Rite Aid Corporation	2
887	Sysco Corporation	6
888	Solectron Corporation	8
889	Sybase, Inc.	12
890	Teradyne, Inc.	12
891	Tupperware Corporation	12
893	Viad Corp	12
COMPANIES ADDED FOR 1998 EDITION		
896	BJ Services Company	9
897	Carlisle Companies Incorporated	12
899	HCA Inc.	12
900	Cooper Cameron Corporation	12
901	EMCOR Group, Inc.	12
902	Equifax Inc.	12
905	The Home Depot, Inc.	1
906	Ingram Micro Inc.	12
907	LSI Logic Corporation	12
908	Lexmark International, Inc.	12
910	Noble Energy, Inc.	12
911	Nordstrom, Inc.	1
912	PRIMEDIA Inc.	12
913	Pilgrim's Pride Corporation	9
914	QUALCOMM Incorporated	9
915	Rock-Tenn Company	9
917	The J. M. Smucker Company	4
920	Viacom Inc.	12
COMPANIES ADDED FOR 1999 EDITION		
921	ADC Telecommunications, Inc.	10
922	Allied Waste Industries, Inc.	12
923	Time Warner Inc.	12
924	Analog Devices, Inc.	10
925	Computer Associates International, Inc.	3
927	Datascope Corp.	6
929	Global SantaFe Corporation	12
930	Hubbell Incorporated	12
931	Iomega Corporation	12
932	KLA-Tencor Corporation	6
933	Kohl's Corporation	1
936	Newmont Mining Corporation	12
939	The Reynolds and Reynolds Company	9
940	The ServiceMaster Company	12
941	Smith International, Inc.	12
942	Steelcase Inc.	2
944	Tellabs, Inc.	12
947	Intermec, Inc.	12
948	Jacuzzi Brands, Inc.	9

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Company Reference Number	Company Name	Month of Fiscal Year End*
949	Universal Forest Products, Inc.	12
950	Weatherford International Ltd.	12

COMPANIES ADDED FOR 2000 EDITION

951	3Com Corporation	5
953	Amazon.com, Inc.	12
954	Amkor Technology, Inc.	12
955	Applied Industrial Technologies, Inc.	6
958	BellSouth Corporation	12
959	Burlington Coat Factory Warehouse Corporation	5
961	Costco Wholesale Corporation	8
962	Del Monte Foods Company	4
963	Dell Inc.	1
964	Electronic Data Systems Corporation	12
965	Freeport-McMoRan Copper & Gold Inc.	12
966	PolyOne Corporation	12
967	KB Home	11
968	Lucent Technologies Inc.	9
970	Office Depot, Inc.	12
972	Oracle Corporation	5
974	Polo Ralph Lauren Corporation	3
975	Precision Castparts Corp.	3
976	Republic Services, Inc.	12
977	Robert Half International Inc.	12
981	Silicon Graphics, Inc.	6
983	Staples, Inc.	1
984	Starbucks Corporation	9
985	IAC/InterActiveCorp	12

COMPANIES ADDED FOR 2001 EDITION

988	Administaff, Inc.	12
989	Aetna Inc.	12
990	Anadarko Petroleum Corporation	12
991	AutoZone, Inc.	8
992	Barnes & Noble, Inc.	1
993	Best Buy Co., Inc.	2
994	Cablevision Systems Corporation	12
995	Caremark Rx, Inc.	12
996	CDW Corporation	12
997	Cigna Corporation	12
998	Clear Channel Communications, Inc.	12
999	Comcast Corporation	12
1000	Comdisco Holding Company, Inc.	9
1001	Cox Communications, Inc.	12
1005	EMC Corporation	12
1008	The Gap, Inc.	1
1010	Health Net, Inc.	12
1011	Hilton Hotels Corporation	12
1012	Jabil Circuit, Inc.	8
1013	LEAR Corporation	12
1014	Lennar Corporation	11
1015	Marriott International, Inc.	12
1017	Nash Finch Company	12
1019	The Pepsi Bottling Group, Inc.	12
1021	Pulte Homes, Inc.	12
1023	Reynolds American, Inc.	12
1024	Sanmina-SCI Corporation	9
1026	Tech Data Corporation	1
1027	Tenet Healthcare Corporation	12
1028	United Stationers Inc.	12
1029	Verizon Communications Inc.	12

COMPANIES ADDED FOR 2002 EDITION

1030	Airgas, Inc.	3
1031	ALLTEL Corporation	12
1033	Armstrong Holdings, Inc.	12
1034	Avaya Inc.	9
1036	Cendant Corporation	12
1037	CenturyTel, Inc.	12
1039	Ciena Corporation	10
1040	Cintas Corporation	5
1041	Citizens Communications Company	12
1043	Darden Restaurants, Inc.	5
1044	Fiserv, Inc.	12
1045	Goodrich Corporation	12
1046	IDT Corporation	7
1047	JDS Uniphase Corporation	6
1049	Maxim Integrated Products, Inc.	6
1050	MPS Group, Inc.	12
1052	Novellus Systems, Inc.	12
1053	Paychex, Inc.	5
1054	Perot Systems Corporation	12
1056	Rockwell Collins, Inc.	9
1057	RPM International Inc.	5
1059	Spherion Corporation	12
1060	Starwood Hotels & Resorts Worldwide, Inc.	12
1061	Stryker Corporation	12
1064	Universal Health Services, Inc.	12
1066	Werner Enterprises, Inc.	12
1067	The Williams Companies, Inc.	12
1069	Xilinx, Inc.	3
1070	XO Holdings, Inc.	12

COMPANIES ADDED FOR 2003 EDITION

1072	Arkansas Best Corporation	12
1073	ArvinMeritor, Inc.	9
1074	Brinker International, Inc.	6
1075	CNF Inc.	12
1076	Coca-Cola Bottling Co. Consolidated	12
1078	Earthlink, Inc.	12
1079	Electronic Arts Inc.	3
1080	Flowers Foods, Inc.	12
1081	Giant Industries, Inc.	12
1083	Griffon Corporation	9
1084	The Manitowoc Company, Inc.	12
1086	Mettler-Toledo International Inc.	12
1087	Regal Entertainment Group	12
1088	Ryder System, Inc.	12
1089	Swift Transportation Co., Inc.	12

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
1090	Thor Industries, Inc.	7
1093	Xerox Corporation	12
1094	Yum! Brands, Inc.	12

COMPANIES ADDED FOR 2004 EDITION

1095	Acuity Brands, Inc.	8
1097	Constellation Brands, Inc.	2
1098	Convergys Corporation	12
1099	Corn Products International, Inc.	12
1100	Cummins Inc.	12
1101	Diebold, Incorporated	12
1102	Dollar General Corporation	1
1103	D.R. Horton, Inc.	9
1104	eBay Inc.	12
1105	Harman International Industries, Incorporated	6
1106	Intuit Inc.	7
1109	MeadWestvaco Corporation	12
1110	NVR, Inc.	12
1111	Pathmark Stores, Inc.	1
1112	St. Jude Medical, Inc.	12
1113	SunGard Data Systems Inc.	12
1114	Symbol Technologies, Inc.	12
1115	Wendy's International, Inc.	12

COMPANIES ADDED FOR 2005 EDITION

1116	American Power Conversion Corporation	12
1117	BMC Software, Inc.	3
1118	CBRL Group, Inc.	7
1119	Cenveo, Inc.	12
1120	Devon Energy Corporation	12
1121	Domino's Pizza, Inc.	12
1122	El Paso Corporation	12
1123	Google Inc.	12
1124	Hewitt Associates, Inc.	9
1125	Hovnanian Enterprises, Inc.	10
1126	Iron Mountain Incorporated	12
1127	Lennox International Inc.	12
1128	Leucadia National Corporation	12
1129	Liberty Media Corporation	12
1130	Longs Drug Stores Corporation	1
1131	Michaels Stores Inc.	1
1132	National Oilwell Varco, Inc.	12
1133	Outback Steakhouse, Inc.	12
1134	Peabody Energy Corporation	12
1135	Plum Creek Timber Company, Inc.	12
1136	Sealed Air Corporation	12
1137	Steel Dynamics, Inc.	12
1138	Teleflex Incorporated	12
1139	The Timberland Company	12
1140	Toll Brothers, Inc.	10
1141	Univision Communications Inc.	12
1142	URS CORPORATION	10
1143	UTStarcom, Inc.	12
1144	Visteon Corporation	12
1145	The Warnaco Group, Inc.	12

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
1146	Wellpoint, Inc.	12
1147	Wheeling-Pittsburgh Corporation	12
1148	Whole Foods Market, Inc.	9

COMPANIES ADDED FOR 2006 EDITION

1149	ARAMARK Corporation	9
1150	Autodesk, Inc.	1
1151	Beazer Homes USA, Inc.	9
1152	Boyd Gaming Corporation	12
1153	CACI International Inc.	6
1154	Career Education Corporation	12
1155	CBS Corporation	12
1156	Chemtura Corporation	12
1157	Coventry Health Care, Inc.	12
1158	Energizer Holdings, Inc.	9
1159	Gold Kist Inc.	9
1160	Jack in the Box Inc.	9
1161	Las Vegas Sands Corp.	12
1162	Meritage Homes Corporation	12
1163	Network Appliance, Inc.	4
1164	News Corporation	6
1165	Retail Ventures, Inc.	1
1166	The Ryland Group, Inc.	12
1167	Sabre Holdings Corporation	12
1168	Sealy Mattress Corporation	11
1169	The Shaw Group Inc.	8
1170	Spectrum Brands, Inc.	9
1171	Symantec Corporation	3
1172	Terex Corporation	12
1173	VeriSign, Inc.	12
1174	Walter Industries, Inc.	12
1175	Warner Music Group Corp.	9
1176	Washington Group International, Inc.	12
1177	Weis Markets, Inc.	12
1178	Zimmer Holdings, Inc.	12

COMPANIES INCLUDED IN FIFTY-NINTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

74	Bausch & Lomb Incorporated
243	Georgia-Pacific Corporation
246	The Gillette Company
283	Hughes Supply, Inc.
299	Navistar International Corporation
362	The May Department Stores Company
486	Sears, Roebuck and Co.
568	Unocal Corporation
650	York International Corporation
675	Saucony, Inc.
696	Anacomp, Inc.
700	Burlington Resources Inc.
712	Juno Lighting, Inc.
804	Storage Technology Corporation
812	Standard Commercial Corporation
885	Reebok International Ltd.
904	Guidant Corporation

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	*Company Name*
979	SBC Communications Inc.
1018	Caesars Entertainment, Inc.
1025	Sprint Corporation
1038	Charter Communications, Inc.
1048	Marsh Supermarkets, Inc.
1051	Nextel Communications, Inc.
1055	Quintiles Transnational Corp.
1058	Scientific-Atlanta, Inc.
1062	Trump Hotels & Casino Resorts, Inc.
1068	Wyndham International, Inc.
1077	Crompton Corporation
1085	Maxtor Corporation
1091	Varco International, Inc.

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

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Pronouncement Index

All of the pronouncements cited in the narrative portions (not in the survey company illustrations) of this edition of *Accounting Trends & Techniques* have been listed below. Titles and paragraph locations have been included for ease of use and reference. Specific pronouncement location can also be found by consulting the Subject Index, which follows this section.

No.	Title	Paragraph
132R	*Employers' Disclosures About Pensions and Other Postretirement Benefits (Revised 2003)*	3.63–3.65
133	*Accounting for Derivative Instruments and Hedging Activities*	1.128, 2.14, 2.15, 2.28, 2.41, 2.99, 2.100, 2.115, 2.119, 2.160, 2.169, 2.182, 2.210
138	*Accounting for Certain Derivative Instruments and Certain Hedging Activities*	1.128
140	*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*	2.41, 2.42, 2.119
141	*Business Combinations*	1.77, 5.14
142	*Goodwill and Other Intangible Assets*	1.21, 2.125, 3.130
144	*Accounting for the Impairment or Disposal of Long-Lived Assets*	3.130–3.132
145	*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*	3.142
150	*Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*	1.128, 2.268
154	*Accounting Changes and Error Corrections*	1.50–1.52, 2.88, 3.99, 3.139, 5.13
155	*Accounting for Certain Hybrid Financial Instruments*	1.128
156	*Accounting for Servicing of Financial Assets*	2.42
	PCAOB Auditing Standards	
1	*References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*	7.15, 7.16
2	*An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*	7.56
	PCAOB Rules	
3100	*Compliance With Auditing and Related Professional Practice Standards*	7.02
	Sarbanes-Oxley Act of 2002	
Section 103 (a)	*Auditing, Quality Control, Ethics Standards*	7.02
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	SEC Regulation S-K	
	Standard Instructions for Filing Forms Under the Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975	1.07, 1.41
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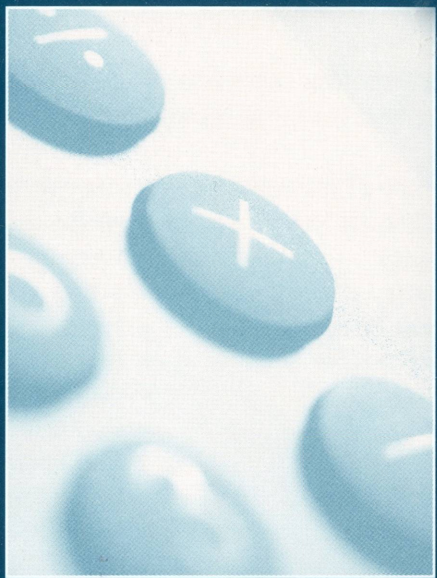

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