2005

Accounting trends and techniques, 59th annual survey, 2005 edition

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Accounting Trends & Techniques

FIFTY-NINTH EDITION 2005

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

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Fifty-ninth 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, 2005.

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Preface

Accounting Trends & Techniques—2005, Fifty-Ninth 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 27, 2004 and February 3, 2005.

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

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

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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 1115 have been assigned to the replacement companies. In the current edition, company reference numbers 1116 through 1148 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.

With the appointment of the Public Company Accounting Oversight Board (PCAOB) by the Securities and Exchange Commission, the PCAOB was given responsibility of oversight over the audit of public companies. The Sarbanes-Oxley Act of 2002 authorized the PCAOB to establish auditing and related professional practice standards to be followed by public accounting firms registered with the PCAOB. In 2004, the PCAOB issued AS No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Connection With an Audit of Financial Statements.* Although *AS No. 2* did not yet apply to all of the company annual reports surveyed in this edition, illustrative examples of the required auditor and management reports presented by survey companies can be found in Section 7.

In the current edition, one table was added. In Section 3, *Income Statement,* new Table 3-12, *Plan Asset Allocation—2004,* was added.

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

Robert Durak, CPA, Director—Accounting & Auditing Publications
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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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. Table 1-1 presents an industry classification of the 600 survey companies.

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

1.04

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	2004	2003
Advertising, marketing	2	4
Aerospace	17	17
Apparel	15	14
Beverages	10	10
Building materials, glass	8	8
Chemicals	27	29
Computer and data services	17	17
Computer peripherals	8	8
Computer software	9	9
Computers, office equipment	11	11
Diversified outsourcing services	10	8
Electronics, electrical equipment	42	42
Engineering, construction	12	11
Entertainment	7	6
Food	23	24
Food and drug stores	16	15
Food services	9	6
Forest and paper products	20	20
Furniture	10	10
General merchandisers	10	11
Health care	10	10
Homebuilders	4	2
Hotels, casinos, resorts	7	8
Industrial and farm equipment	36	35
Medical products and equipment	13	13
Metal products	19	21
Metals	15	14
Mining, crude-oil production	14	13
Miscellaneous	6	9
Motor vehicles and parts	15	17
Network communications	7	6
Petroleum refining	14	13
Pharmaceuticals	10	10
Publishing, printing	21	20
Rubber and plastic products	7	6
Scientific, photographic, and control equipment	19	20
Semiconductors	14	14
Soaps, cosmetics	7	8
Specialty retailers	18	17
Telecommunications	16	15
Temporary help	5	5
Textiles	4	5
Tobacco	6	6
Toys, sporting goods	2	2
Transportation equipment	4	4
Trucking, truck leasing	5	5
Waste management	3	3
Wholesalers	16	19
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

	2004	2003	2002	2001
Less than $100,000,000	16	23	23	18
Between $100,000,000 and $500,000,000	40	41	44	50
Between $500,000,000 and $1,000,000,000	43	52	55	41
Between $1,000,000,000 and $2,000,000,000	105	110	128	123
Between $2,000,000,000 and $3,000,000,000	82	77	64	77
Between $3,000,000,000 and $4,000,000,000	42	42	46	44
Between $4,000,000,000 and $5,000,000,000	39	43	40	41
Between $5,000,000,000 and $10,000,000,000	93	91	84	80
More than $10,000,000,000	140	121	116	126
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 Filling 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, environmental matters, and critical accounting policies.

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

Quarterly Financial Data

1.10

EL PASO CORPORATION (DEC)

SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Financial information by quarter, is summarized below.

	Quarters Ended				
(In millions, except per common share amounts)	March 31	June 30	September 30	December 31	Total
2004					
Operating revenues	$1,557	$ 1,524	$1,429	$1,364	$ 5,874
Loss on long-lived assets	222	17	582	271	1,092
Operating income (loss)	205	370	(355)	(14)	206
Income (loss) from continuing operations	$ (97)	$ 45	$ (202)	$ (548)	$ (802)
Discontinued operations, net of income taxes[1]	(109)	(29)	(12)	4	(146)
Net income (loss)	$ (206)	$ 16	$ (214)	$ (544)	$ (948)
Basic and diluted earnings per common share					
Income (loss) from continuing operations	$ (0.15)	$ 0.07	$ (0.31)	$ (0.86)	$ (1.25)
Discontinued operations, net of income taxes	(0.17)	(0.04)	(0.02)	0.01	(0.23)
Net income (loss)	$ (0.32)	$ 0.03	$ (0.33)	$ (0.85)	$ (1.48)
2003					
Operating revenues	$1,828	$ 1,569	$1,714	$1,557	$ 6,668
Loss on long-lived assets	14	395	54	397	860
Western Energy Settlement	—	123	(20)	1	104
Operating income (loss)	264	(272)	481	(68)	405
Income (loss) from continuing operations	$ (207)	$ (297)	$ 65	$ (84)	$ (523)
Discontinued operations, net of income taxes[1]	(215)	(939)	(41)	(201)	(1,396)
Cumulative effect of accounting changes, net of income taxes	(9)	—	—	—	(9)
Net income (loss)	$ (431)	$(1,236)	$ 24	$ (285)	$(1,928)
Basic and diluted earnings per common share					
Income (loss) from continuing operations	$ (0.34)	$ (0.50)	$ 0.11	$ (0.14)	$ (0.87)
Discontinued operations, net of income taxes	(0.36)	(1.57)	(0.07)	(0.33)	(2.34)
Cumulative effect of accounting changes, net of income taxes	(0.02)	—	—	—	(0.02)
Net income (loss)	$ (0.72)	$ (2.07)	$ 0.04	$ (0.47)	$ (3.23)

(1) Our petroleum markets operations, our Canadian and certain other international natural gas and oil production operations, and our coal mining operations are classified as discontinued operations.

1.11

RYDER SYSTEM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Quarterly Information (Unaudited)

(In thousands, except per share data)	Revenue	Earnings Before Cumulative Effect of Changes in Accounting Principles	Net Earnings	Earnings Per Common Share Before Cumulative Effect of Changes in Accounting Principles		Net Earnings Per Common Share	
				Basic	Diluted	Basic	Diluted
2004							
First quarter	$1,212,258	$ 35,041	$ 35,041	$0.54	$0.53	$0.54	$0.53
Second quarter	1,268,915	63,645	63,645	0.99	0.97	0.99	0.97
Third quarter	1,305,914	54,282	54,282	0.85	0.83	0.85	0.83
Fourth quarter	1,363,191	62,641	62,641	0.98	0.96	0.98	0.96
Full year	$5,150,278	$215,609	$215,609	$3.35	$3.28	$3.35	$3.28
2003							
First quarter	$1,194,375	$ 20,940	$ 19,771	$0.34	$0.33	$0.32	$0.31
Second quarter	1,197,400	34,682	34,682	0.55	0.55	0.55	0.55
Third quarter	1,193,603	40,507	37,553	0.64	0.63	0.59	0.58
Fourth quarter	1,216,916	39,430	39,430	0.62	0.61	0.62	0.61
Full year	$4,802,294	$135,559	$131,436	$2.15	$2.12	$2.09	$2.06

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

Earnings in 2004 were impacted, in part, by after-tax gains from properties sold in connection with the relocation of our headquarters of $0.6 million in the first quarter, $14 million in the second quarter and $0.7 million in the third quarter. Earnings in 2004 were also impacted, in part, by a net income tax benefit of $9 million recognized in the fourth quarter associated with developments in various tax matters.

Selected Information for Five Years

1.12

GOOGLE INC. (DEC)

SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

The consolidated statements of operations data for the years ended December 31, 2002, 2003 and 2004, and the consolidated balance sheet data at December 31, 2003 and 2004, are derived from our audited consolidated financial statements appearing elsewhere in this Form 10-K. The consolidated statements of operations data for the years ended December 31, 2000 and December 31, 2001, and the consolidated balance sheet data at December 31, 2000, 2001 and 2002, are derived from our audited consolidated financial statements that are not included in this Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

(In thousands, except per share data)	2000	2001	2002	2003	2004
Consolidated statements of operations data:					
Revenues	$ 19,108	$ 86,426	$439,508	$1,465,934	$3,189,223
Costs and expenses:					
Cost of revenues	6,081	14,228	131,510	625,854	1,457,653
Research and development	10,516	16,500	31,748	91,228	225,632
Sales and marketing	10,385	20,076	43,849	120,328	246,300
General and administrative	4,357	12,275	24,300	56,699	139,700
Stock-based compensation(1)	2,506	12,383	21,635	229,361	278,746
Non-recurring portion of settlement of disputes with Yahoo	—	—	—	—	201,000
Total costs and expenses	33,845	75,462	253,042	1,123,470	2,549,031
Income (loss) from operations	(14,737)	10,964	186,466	342,464	640,192
Interest income (expense) and other, net	47	(896)	(1,551)	4,190	10,042
Income (loss) before income taxes	(14,690)	10,068	184,915	346,654	650,234
Provision for income taxes	—	3,083	85,259	241,006	251,115
Net income (loss)	$(14,690)	$ 6,985	$ 99,656	$ 105,648	$ 399,119
Net income (loss) per share(2)					
Basic	$ (0.22)	$ 0.07	$ 0.86	$ 0.77	$ 2.07
Diluted	$ (0.22)	$ 0.04	$ 0.45	$ 0.41	$ 1.46
Number of shares used in per share calculation(2)					
Basic	67,032	94,523	115,242	137,697	193,176
Diluted	67,032	186,776	220,633	256,638	272,781

(1) Stock-based compensation, consisting of amortization of deferred stock-based compensation and the value of options issued to non-employees for services rendered, is allocated as follows:

(In thousands)	2000	2001	2002	2003	2004
Cost of revenues	$ 167	$ 876	$ 1,065	$ 8,557	$ 11,314
Research and development	1,573	4,440	8,746	138,377	169,532
Sales and marketing	514	1,667	4,934	44,607	49,449
General and administrative	252	5,400	6,890	37,820	48,451
	$ 2,506	$12,383	$21,635	$229,361	$278,746

(2) See Note 1 of Notes to Consolidated Financial Statements included in this Form 10-K for information regarding the computation of per share amounts.

(In thousands)	2000	2001	2002	2003	2004
Consolidated balance sheet data:					
Cash, cash equivalents and marketable securities	$19,101	$ 33,589	$146,331	$ 334,718	$2,132,297
Total assets	46,872	84,457	286,892	871,458	3,313,351
Total long-term liabilities	7,397	8,044	9,560	33,365	43,927
Redeemable convertible preferred stock warrant	—	—	13,871	13,871	—
Deferred stock-based compensation	(8,457)	(15,833)	(35,401)	(369,668)	(249,470)
Total stockholders' equity	27,234	50,152	173,953	588,770	2,929,056

1.13

SYMBOL TECHNOLOGIES, INC. (DEC)

SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information of Symbol for each of the years in the five-year period ended December 31, 2004. These tables should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this Annual Report on Form 10-K and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(In thousands, except per share)	2000	2001	2002(1)	2003	2004
Revenue:					
Product	$1,005,787	$1,206,176	$1,103,070	$1,223,853	$1,433,671
Services	207,476	281,280	298,547	306,425	298,452
Total revenue	1,213,263	1,487,456	1,401,617	1,530,278	1,732,123
Cost of revenue:					
Product cost of revenue	658,149	826,766	693,980	635,103	709,967
Services cost of revenue	162,709	219,310	219,985	219,926	213,118
Total cost of revenue	820,858	1,046,076	913,965	855,029	923,085
Gross profit	392,405	441,380	487,652	675,249	809,038
Operating expenses:					
Engineering	127,740	149,523	142,602	156,328	167,543
Selling, general and administrative	326,117	329,044	343,971	421,132	502,331
Stock-based compensation expense/(recovery)	9,402	(92,760)	(68,084)	17,087	2,234
Provision/(recovery) for legal settlements	—	—	98,300	72,000	(21,400)
Restructuring and impairment charges	4,761	10,218	2,590	1,181	5,170
In-process research and development	87,600	—	—	—	12,800
Merger integration charges	6,785	9,238	—	—	—
Amortization of goodwill	6,347	14,823	—	—	—
Total operating expenses	568,752	420,086	519,379	667,728	668,678
Earnings/(loss) from operations	(176,347)	21,294	(31,727)	7,521	140,360
Other (expense)/income:					
Interest income	4,484	2,876	2,322	2,969	3,507
Interest expense	(19,405)	(22,145)	(16,801)	(10,590)	(20,032)
Impairment of investments	—	(23,757)	(32,200)	(3,550)	—
Other income (expense), net	—	4,177	16,676	7,551	(66)
	(14,921)	(38,849)	(30,003)	(3,620)	(16,591)
Earnings/(loss) before income taxes	(191,268)	(17,555)	(61,730)	3,901	123,769
Provision for/(benefit from) income taxes	(53,602)	214	(16,815)	606	41,922
Net earnings/(loss)	$ (137,666)	$ (17,769)	$ (44,915)	$ 3,295	$ 81,847
Earnings/(loss) per share:					
Basic	$ (0.67)	$ (0.08)	$ (0.20)	$ 0.01	$ 0.34
Diluted	$ (0.67)	$ (0.08)	$ (0.20)	$ 0.01	$ 0.33
Weighted average number of common shares outstanding:					
Basic	206,347	227,173	229,593	230,710	242,469
Diluted	206,347	227,173	229,953	236,449	246,166
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 52,624	$ 70,365	$ 76,121	$ 150,017	$ 217,641
Total assets	2,009,041	1,705,371	1,572,195	1,646,518	1,930,369
Long-term debt, less current portion	201,144	220,521	135,614	99,012	176,087
Total stockholders' equity	1,092,588	999,115	887,739	920,598	1,072,519
Cash dividends per share(2)	$ 0.0144	$ 0.0167	$ 0.02	$ 0.02	$ 0.02

(1) Symbol changed its method of accounting for good will and other intangibles effective January 1, 2002.
(2) Adjusted to reflect three-for-two stock splits that became effective on April 16, 2001, April 5, 2000 and June 14, 1999.

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

1.14

MERRIMAC INDUSTRIES, INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Merrimac Industries, Inc. is involved in the design, manufacture and sale of electronic component devices offering extremely broad frequency coverage and high performance characteristics, and microstrip, bonded stripline and thick metal-backed Teflon® (PTFE) and mixed dielectric multilayer circuits for communications, defense and aerospace applications. The Company's operations are conducted primarily through two business segments: (1) electronic components and (2) microwave micro-circuitry (its subsidiary, Filtran Microcircuits Inc.).

The following table provides a breakdown of our sales between these segments:

	2004		2003	
	$	% of Sales	$	% of Sales
Electronic components	$25,141,000	81.2 %	$23,962,000	87.7 %
Microwave micro-circuitry[(1)]	$ 5,956,000	19.2 %	$ 3,709,000	13.6 %
Less intersegment sales	$ (148,000)	(0.4)%	$ (349,000)	(1.3)%
Consolidated	$30,949,000	100.0 %	$27,322,000	100.0 %

[(1)] Substantially all conducted by our Canadian subsidiary, Filtran Microcircuits Inc.

Merrimac is a versatile technologically oriented company specializing in miniature radio frequency lumped-element components, integrated networks, microstrip and stripline microwave components, subsystems and ferrite attenuators. Of special significance has been the combination of two or more of these technologies into single components to achieve superior performance and reliability while minimizing package size and weight. Merrimac components are today found in applications as diverse as satellites, military and commercial aircraft, radar, cellular radio systems, medical and dental diagnostic instruments, personal communications systems ("PCS") and wireless Internet connectivity. Merrimac's components range in price from $0.50 to more than $10,000 and its subsystems range from $500 to more than $500,000.

Multi-Mix®

In 1998, Merrimac introduced Multi-Mix® Microtechnology capabilities, an innovative process for microwave, multilayer integrated circuits and micro-multifunction module (MMFM)® technology and subsystems. This process is based on fluoropolymer composite substrates, which are bonded together into a multilayer structure using a fusion bonding process. The fusion process provides a homogeneous dielectric medium for superior electrical performance at microwave frequencies. This 3-dimensional Multi-Mix® design consisting of stacked circuit layers permits the manufacture of components and subsystems that are a fraction of the size and weight of conventional microstrip and stripline products.

Multi-Mix PICO®

In July 2001, Merrimac introduced its Multi-Mix PICO® Microtechnology. Through Multi-Mix PICO® technology, Merrimac offers a group of products at a greatly reduced size, weight and cost that includes hybrid junctions, directional couplers, quadrature hybrids, power dividers and inline couplers, filters and vector modulators along with 802.11a, 802.11b, and 802.11g Wireless LAN (Local Area Network) modules. When compared to conventional multilayer quadrature hybrids and directional coupler products, Multi-Mix PICO® is more than 84% smaller in size, without the loss of power or performance. Merrimac has completed the development of integrated inline multi-couplers and is supplying these Multi-Mix PICO® products to major basestation customers.

Merrimac's strategy is to be a reliable supplier of high quality, technically innovative signal processing products. Merrimac coordinates its marketing, research and development, and manufacturing operations to develop new products and expand its markets. Merrimac's marketing and development activities focus on identifying and producing prototypes for new military and commercial programs and applications in aerospace, navigational systems, telecommunications and cellular analog and digital wireless telecommunications electronics. Merrimac's research and development efforts are targeted towards providing customers with more complex, reliable, and compact products at lower costs.

Merrimac's customers are primarily major industrial corporations that integrate Merrimac's products into a wide variety of defense and commercial systems. Merrimac's customers include:

- The Boeing Company
- Raytheon Company
- Northrop Grumman Corporation
- Lockheed Martin Corporation
- Loral Space & Communications Ltd.
- Celestica, Inc.
- EADS Astrium
- BAE Systems
- ITT
- General Dynamics Corporation

The following table presents our key customers and the percentage of net sales made to such customers:

	2004	2003
Raytheon Company	13.9%	12.3%
Northrop Grumman Corporation	11.9%	12.4%
The Boeing Company	7.8%	16.1%

Sales to the foreign geographic area of Europe were 8.9%, 10.3% and 11.2% of net sales in fiscal years 2004, 2003 and 2002, respectively.

The following table provides a breakdown of the net sales by customer industry segment and geographic area:

	North America		Rest of World	
	$	%	$	%
2004				
Military and commercial satellites	$6,947,000	22.4%	$ 459,000	1.5%
Defense	$9,993,000	32.3%	$2,134,000	6.9%
Commercial	$9,818,000	31.7%	$1,598,000	5.2%
2003				
Military and commercial satellites	$6,442,000	23.6%	$1,067,000	3.9%
Defense	$7,436,000	27.2%	$1,620,000	5.9%
Commercial	$8,511,000	31.2%	$2,246,000	8.2%

Acquired by Merrimac in February 1999, Filtran Microcircuits Inc. ("FMT") is a leading manufacturer of microwave micro-circuitry for the high frequency communications industry. FMI produces microstrip, bonded stripline, and thick metal-backed Teflon® (PTFE) microcircuits for RF applications including satellite, aerospace, PCS, fiber optic telecommunications, automotive, navigational and defense applications worldwide. FMI participates in the market for millimeter-wave applications. FMI also supplies mixed dielectric multilayer and high speed interconnect circuitry to meet customer demand for high performance and cost-effective packaging. FMI's key customers include:

- M/A-Com, Inc.
- Raytheon Canada Ltd.
- Filtronic Broadband Ltd.
- Trak Microwave Corporation
- Endwave North East Corporation
- Communication Techniques Inc.
- Signal Technology Corporation

For more information regarding our electronics components business and the microwave micro-circuitry business done by FMI, please see Note 8 of the Notes to Consolidated Financial Statements.

The Company markets and sells its products domestically and internationally through a direct sales force and manufacturers' representatives. Merrimac has traditionally developed and offered for sale products built to specific customer needs, as well as standard catalog items. The following table provides a breakdown of electronic components sales as derived from initial orders for products custom designed for specific customer applications, repeat orders for such products and from catalog sales:

	2004	2003	2002
Initial designs	27%	35%	35%
Repeat designs	58%	48%	50%
Catalog sales	15%	17%	15%

The Company believes that while its wireless subscriber base continues to grow, the economic downturn, resulting in reduced spending by wireless telecommunications service providers, has caused many wireless telecommunications equipment manufacturers to delay or forego purchases of the Company's products. However, the Company expects that its defense and satellite customers should continue to maintain their approximate current levels of orders during fiscal year 2005, though there are no assurances they will do so. Nevertheless, in times of armed conflict or war, military spending is concentrated on armaments build up, maintenance and troop support, and not on the research and development and specialty applications that are the Company's core strengths and revenue generators. Accordingly, our defense and military product revenues may decrease and should not be expected to increase, at times of armed conflicts or war. The Company also anticipates increased levels of orders during fiscal year 2005 for its Multi-Mix® Microtechnology products, based on inquiries from existing customers, requests to quote from new and existing customers and market research. The improved telecommunications sector and the continued efforts to diversify FMI into wireless base stations, automotive and defense applications has resulted in additional orders for FMI, which the Company anticipates will continue.

Cost of sales for the Company consists of materials, salaries and related expenses, and outside services for manufacturing and certain engineering personnel and manufacturing overhead. Our products are designed and manufactured in the Company's facilities. The Company's manufacturing and production facilities infrastructure overhead are relatively fixed and are based on its expectations of future net revenues. Should the Company experience a reduction in net revenues in a quarter, it could have difficulty adjusting short-term expenditures and absorbing any excess capacity expenses. If this were to occur, the Company's operating results for that quarter would be negatively impacted. In order to remain competitive, the Company must continually reduce its manufacturing costs through design and engineering innovations and increases in manufacturing efficiencies. There can be no assurance that the Company will be able to reduce its manufacturing costs.

Depreciation and amortization expenses exceeded capital expenditures for new projects and production equipment during 2004 by approximately $1,500,000, and the Company anticipates that depreciation and amortization expenses will exceed capital expenditures in fiscal year 2005 by approximately $800,000. The Company intends to issue up to $1,900,000 of purchase order commitments for capital equipment from various vendors. The Company anticipates that such equipment will be purchased and become operational during fiscal year 2005.

Selling, general and administrative expenses consist of personnel costs for administrative, selling and marketing groups, sales commissions to employees and manufacturing representatives, travel, product marketing and promotion costs, as well as legal, accounting, information technology and other administrative costs. The Company expects to continue to make significant and increasing expenditures for selling, general and administrative expenses, especially in connection with implementation of its strategic plan for generating and expanding sales of Multi-Mix® products.

Research and development expenses consist of materials, salaries and related expenses of certain engineering personnel, and outside services related to product development projects. The Company charges all research and development expenses to operations as incurred. The Company believes that continued investment in research and development is critical to the Company's long-term business success. We intend to continue to invest in research and development programs in future periods, and expect that these costs will increase over time, in order to develop new products, enhance performance of existing products and reduce the cost of current or new products.

Critical Accounting Estimates and Policies

The Company's management makes certain assumptions and estimates that impact the reported amounts of assets, liabilities and stockholders' equity, and revenues and expenses. These assumptions and estimates are inherently uncertain. The management judgments that are currently the most critical are related to the accounting for the Company's investments in Multi-Mix® Microtechnology, contract revenue recognition, inventory valuation, valuation of goodwill and valuation of deferred tax assets. Below we describe these policies further as well as the estimates and policies involved.

Impairment of Long-Lived Assets

The following is a summary of the carrying amounts of the Multi-Mix® Microtechnology net assets included in the Company's consolidated financial statements at January 1, 2005 and the related future planned purchases and lease obligation commitments through January 2006.

Net assets:	
Property, plant and equipment, at cost	$14,265,000
Less accumulated depreciation and amortization	5,392,000
Property, plant and equipment, net	8,873,000
Inventories	585,000
Other assets, net	263,000
Total net assets at January 1, 2005	$ 9,721,000
Commitments:	
Planned equipment purchases for 2005	$ 700,000
Lease obligations through January 2006	325,000
Total commitments	$ 1,025,000
Total net assets and commitments	$10,746,000

Approximately 32% of the property, plant and equipment may be utilized in other areas of our electronic components operations.

The Company anticipates receiving additional orders during 2005 for its Multi-Mix® Microtechnology products, based on inquiries from existing customers, requests to quote from new and existing customers and market research, for which substantial research and development costs have also been incurred. Due to economic and market conditions in the wireless industry since 2000, wireless telecommunications system service providers substantially reduced their capital equipment purchases from our customers. While these circumstances have resulted in the delay or cancellation of Multi-Mix® Microtechnology product purchases that had been anticipated from certain specific customers or programs, in connection with the improved conditions in the industry, the Company has implemented a strategic plan utilizing product knowledge and customer focus to expand specific sales opportunities. However, continued extended delay or reduction from planned levels in new orders expected from customers for these products could require the Company to pursue alternatives related to the utilization or realization of these assets and commitments. Should these alternatives not be realized, the Company would have to write down the value of these assets, thereby incurring an impairment charge to earnings, the net result of which would be materially adverse to the financial results and condition of the Company. In accordance with the Company's evaluation of Multi-Mix® under SFAS No. 144, the Company has determined no provision for impairment is required at this time. Management will continue to monitor the recoverability of the Multi-Mix® assets.

The Company's planned equipment purchases and other commitments are expected to be funded through cash resources and cash flows that are expected to be provided by operations, and supplemented by a $5,000,000 revolving credit facility, which expires October 8, 2006.

Contract Revenue Recognition

Contract revenue and related costs on fixed-price and cost-reimbursement contracts that require customization of products to customer specifications are recorded when title transfers to the customer, which is generally on the date of shipment. Prior to shipment, manufacturing costs incurred on such contracts are recorded as work-in-process inventory. Anticipated losses on contracts are charged to operations when identified. Revenue related to non-recurring engineering charges is generally recognized upon shipment of the related initial units produced or based upon contractually established stages of completion. The cost rates utilized for cost-reimbursement contracts are subject to review by third parties and can be revised, which can result in additions to or reductions from revenue. Revisions which result in reductions to revenue are recognized in the period that the rates are reviewed and finalized; additions to revenue are recognized in the period that the rates are reviewed, finalized, accepted by the customer, and collectability from the customer is assured. The Company recognizes revenue in accordance with the provisions of Staff Accounting Bulletin No. 104.

Inventory Valuation

Inventories are valued at the lower of average cost or market. Inventories are periodically reviewed for their projected manufacturing usage utilization and, when slow-moving or obsolete inventories are identified, a provision for a potential loss is made and charged to operations. Total inventories are net of valuation allowances for obsolescence and cost overruns of $1,942,000 at January 1, 2005 and $1,787,000 at January 3, 2004, of which $901,000 and $747,000, respectively, represented cost overruns.

Procurement of inventory is based on specific customer orders and forecasts. Customers have certain rights of modification with respect to these orders and forecasts. As a result, customer modifications to orders and forecasts affecting inventory previously procured by us and our purchases of inventory beyond customer needs may result in excess and obsolete inventory for the related customers. Although we may be able to use some of these excess components and raw materials in other products we manufacture, a portion of the cost of this excess inventory may not be recoverable from customers, nor may any excess quantities be returned to the vendors. We also may not be able to recover the cost of obsolete inventory from vendors or customers.

Write offs or write downs of inventory generally arise from:

- declines in the market value of inventory; and
- changes in customer demand for inventory, such as cancellation of orders and our purchases of inventory beyond customer needs that result in excess quantities on hand and that we are not able to return to the vendor or charge back to the customer.

Valuation of Goodwill

With the adoption of SFAS No. 142 by the Company on December 30, 2001, goodwill is no longer subject to amortization over its estimated useful life. However, goodwill is subject to at least an annual assessment for impairment and more frequently if circumstances indicate a possible impairment. The Company performed the annual assessment during the fourth quarter of 2004 and determined there was no impairment.

Valuation of Deferred Tax Assets

The Company currently has significant deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences, which should reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company's 2002 and 2003 net losses weighed heavily in the Company's overall assessment. As a result of the assessment, the Company established a full valuation allowance for its remaining net domestic deferred tax assets at December 28, 2002. This assessment continued unchanged in fiscal years 2003 and 2004. Management believes that a valuation allowance is not required for FMI's deferred tax assets as their realization is more likely than not.

Consolidated Statements of Operations Summary

The following table displays line items in the Consolidated Statements of Operations as a percentage of net sales.

	Percentage of Net Sales		
	(Unaudited)		
	2005	2004	2002
Net sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	58.3	61.3	57.4
Selling, general and administrative	31.7	34.9	36.4
Research and development	5.6	6.4	11.1
Restructuring charges	—	.6	2.1
	95.6	103.2	107.0
Operating income (loss)	4.4	(3.2)	(7.0)
Interest and other expense, net	(0.8)	(1.0)	(.7)
Gain on disposition of assets	—	.4	—
Income (loss) before income taxes	3.6	(3.8)	(7.7)
Provision (benefit) for income taxes	(.3)	(.4)	1.0
Net income (loss)	3.9%	(3.4%)	(8.7%)

2004 Compared to 2003

Net Sales

Consolidated results of operations for 2004 reflect an increase in net sales from 2003 of $3,627,000 or 13.3% to $30,949,000. This increase was attributable to a $1,179,000 increase in net sales of electronic components and a $2,247,000 increase in sales of microwave micro-circuitry products from the Company's wholly-owned subsidiary Filtran Microcircuits Inc. ("FMI"). The increase in net sales for the electronic components segment for 2004 is attributable to improved orders in 2004 from existing satellite and defense customers and a higher backlog at the beginning of 2004 as compared to the beginning of 2003; the higher backlog reflected new orders from existing customers in the Company's defense business. The Company expects that its defense and satellite customers should continue to maintain their approximate current levels of orders during fiscal year 2005, though there are no assurances they will do so. Nevertheless, in times of armed conflict or war, military spending is concentrated on armaments build up, maintenance and troop support, and not on the research and development and specialty applications that are the Company's core strengths and revenue generators. The Company also anticipates increased levels of orders during fiscal year 2005 for its Multi-Mix® Microtechnology products, based on inquiries from existing customers, requests to quote from new and existing customers and market research. The increase in sales of the microwave micro-circuitry segment for 2004 was due to new orders from both existing and new customers due to the continued efforts to diversify FMI into wireless base stations, automotive and defense applications. FMI anticipates much of this new order volume to renew in future periods.

Backlog represents the amount of orders the Company has received that have not been shipped as of the end of a particular fiscal period. The orders in backlog are a measure of future sales and determine the Company's upcoming material, labor and service requirements. The book-to-bill ratio for a particular period represents orders received for that period divided by net sales for the same period. The Company looks for this ratio to exceed 1.0, indicating the backlog is being replenished at a higher rate than the sales being removed from the backlog.

The following table presents key performance measures that we use to monitor our operating results:

	2004	2003
Beginning backlog	$12,395,000	$10,044,000
Plus bookings	$31,499,000	$29,673,000
Less net sales	$30,949,000	$27,322,000
Ending backlog	$12,945,000	$12,395,000
Book-to-bill ratio	1.02	1.09

Orders of $31,499,000 were received for 2004, an increase of $1,826,000 or 6.2% compared to $29,673,000 in orders received for 2003. Backlog increased by $550,000 to $12,945,000 at the end of 2004 compared to $12,395,000 at year-end 2003.

Cost of Sales and Gross Profit

The following table provides comparative gross profit information, by product segment, for the past two years.

	$	Increase/ (Decrease) From Prior Year	% of Segment Net Sales
2004			
Electronic components gross profit	$11,341,000	$1,841,000	45.1%
Microwave micro-circuitry gross profit	$ 1,569,000	$ 492,000	26.3%
Consolidated gross profit	$12,910,000	$2,333,000	41.7%
2003			
Electronic components gross profit	$ 9,500,000	$ 604,000	39.6%
Microwave micro-circuitry gross profit	$ 1,077,000	$ (493,000)	29.0%
Consolidated gross profit	$10,577,000	$ 111,000	38.7%

The increases in gross profit for 2004 for the electronic components segment were due to the overall increase in segment sales along with savings resulting from the increased utilization of the Company's West Caldwell, New Jersey and Costa Rica manufacturing production facilities, better product mix and the benefits of the cost containment and restructuring programs instituted during 2003. Cost of sales for the electronic components segment also reflects increased staffing to meet production requirements and a reduction of intersegment purchases from FMI of $201,000 for 2004.

Depreciation expense included in 2004 consolidated cost of sales was $2,965,000, an increase of $187,000 compared to 2003. For 2004, approximately $1,593,000 of depreciation expense was associated with Multi-Mix® Microtechnology capital assets. Increases in depreciation expense were a result of capital equipment purchases in the current and prior years.

FMI sales include intersegment sales of $148,000 and $349,000 in 2004 and 2003, respectively. The decrease in gross margin percent for 2004 is due to higher material and overhead costs, including additional overtime, related to the new defense orders booked in 2004. During the second half of 2004, gross profit margin at FMI was negatively impacted by the weakness of the U.S. dollar against the Canadian dollar. The higher material and overtime costs for such defense orders are not expected to continue into future periods, but certain additional overhead costs may affect future results.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $9,820,000 for 2004 increased by $284,000 or 3.0%, and when expressed as a percentage of net sales, decreased by 3.2 percentage points to 31.7% compared to 2003. 2003 selling, general and administrative expenses included expenses associated with bank modification agreements entered into during the second quarter and additional professional fees that were incurred totaling approximately $400,000. The 2004 selling, general and administrative expenses increased due to higher marketing and administrative costs, including higher professional fees for Sarbanes-Oxley assessments.

Research and Development Expenses

Research and development expenses for new products were $1,723,000 for 2004, a decrease of $14,000 or 0.9% and when expressed as a percentage of net sales, a decrease of 0.8 percentage points to 5.6% compared to 2003. Except for $198,000 of expenses at FMI (an increase of $36,000 from such FMI expenses in 2003) substantially all of the research and development expenses were related to Multi-Mix® Microtechnology and Multi-Mix PICO® products. The Company anticipates that these expenses will increase in future periods in connection with implementation of our strategic plan for Multi-Mix®.

Operating Income

Consolidated operating income for 2004 was $1,367,000 compared to a consolidated operating loss of $856,000 for 2003. Operating income for 2004 was reduced by $150,000 for employee incentive compensation payments and by $75,000 for a profit-sharing contribution to the Company's 401(k) Plan. During 2003 the Company reduced its head count by 14 persons, principally involved in production, manufacturing support, sales and administration. The Company recorded personnel restructuring charges of $160,000, consisting of severance and certain other personnel costs during 2003.

For 2004, the Company's operating income for its electronic component segment was $1,178,000 compared to an operating loss of $860,000 for 2003. For 2004, operating income for the microwave micro-circuitry segment was $189,000 compared to operating income of $4,000 for 2003.

Interest and Other Expense, Net

Interest and other expense, net was $265,000 for 2004 compared to interest and other expense, net of $271,000 for 2003. Interest expense for 2004 was principally incurred on borrowings under the revolving line of credit and term loans which the Company consummated during the fourth quarter of 2003 at higher interest rates than the previous facility. Interest expense for 2003 was principally incurred on borrowings under the mortgage loan and the term loan facility with its prior bank that was entered into during fiscal year 2002. The reduction of interest and other expense was due to lower outstanding debt balances during 2004 as the Company repaid $1,491,000 throughout 2004.

Income Taxes

The Company's effective tax rate for the year ended January 1, 2005 reflects U.S. Federal Alternative Minimum Tax and State income taxes for the current year in the amount of $122,000 that are due based on certain statutory limitations on the use of the Company's net operating loss carryforwards. Tax benefits were recorded in the amount of $218,000 and $109,000 in 2004 and 2003, respectively, primarily associated with FMI's research and development expenses incurred in Canada.

Internal Revenue Service Code Section 382 places a limitation on the utilization of net operating loss carryforwards when an ownership change, as defined in the tax law, occurs.

Generally, an ownership change occurs when there is a greater than 50 percent change in ownership. If such change should occur, the actual utilization of net operating loss carryforwards, for tax purposes, would be limited annually to a percentage of the fair market value of the Company at the time of such change. Although management believes these limitations did not impact 2004, the limitation could be triggered during 2005.

Net Income

Net income for 2004 was $1,198,000 compared to a net loss of $914,000 for 2003. Net income per diluted share for 2004 was $.38 compared to a net loss of $.29 per share for 2003.

2003 Compared to 2002

Net Sales

Consolidated results of operations for 2003 reflect an increase in net sales from the prior year of $2,752,000 or 11.2% to $27,322,000. This increase was primarily attributable to a $2,548,000 increase in the electronic components segment attributable to improved orders in the Company's defense and satellite business offset by a decrease in net sales of microwave micro-circuitry products of $257,000 of the Company's wholly-owned subsidiary Filtran Microcircuits Inc. ("FMI"). The decrease in 2003 FMI sales was due to continued softness in the telecommunications sector that FMI sarves, principally millimeter-wave applications for wireless broadband solutions.

Orders of $29,673,000 were received during 2003, an increase of $6,916,000 or 30.4%, compared to $22,757,000 in orders received during 2002. As a result, backlog increased by $2,351,000 or 23.4% to $12,395,000 at the end of 2003, compared to $10,044,000 at year-end 2002.

The Company believes that the current economic downturn, resulting in reduced spending by wireless service providers, has caused many wireless companies to delay or forego certain purchases of the Company's products and this trend is expected to continue in the near term. However, the Company expects that its satellite and defense customers should continue to maintain their approximate current levels of orders during 2004, although there are no assurances they will do so. The Company also anticipates increasing levels of orders during 2004 and for fiscal year 2005 for its Multi-Mix® Microtechnology products, for which the Company has made a significant capital investment and incurred substantial research and development costs. The Company expects that previous weaknesses in the telecommunications sector that FMI serves will improve in 2004.

Cost of Sales and Gross Profit

Consolidated cost of sales increased $2,641,000 or 18.7%, and as a percentage of net sales increased 3.9 percentage points to 61.3%, for 2003. Cost of sales increased $1,943,000 (which includes lower intersegment purchases from FMI of $461,000) for 2003 in the electronic components segment, resulting from additional production costs above anticipated costs, competitive pricing, and higher manufacturing costs that were attributable to increases in depreciation and other occupancy expenses related to the expansion of the Company's West Caldwell, New Jersey and Costa Rica manufacturing production facilities. Cost of sales increased $237,000 during 2003 in the microwave micro-circuitry segment, due to higher material and labor costs.

Depreciation expense included in 2003 consolidated cost of sales was $2,778,000, an increase of $531,000 compared to 2002. For 2003, approximately $1,650,000 of depreciation expense was associated with Multi-Mix® Microtechnology capital assets. Other increases in depreciation expense were a result of capital equipment purchases in the current and prior years and the commencement of depreciation expense associated with the West Caldwell, New Jersey 19,200 square-foot building expansion, which was placed into service during the first quarter of 2002, During the third quarter of 2002, depreciation and amortization expense commenced on the recently completed 36,200 square-foot Multi-Mix® manufacturing facility in San Jose, Costa Rica.

Consolidated gross profit for 2003 was impacted by the items referred to in the above discussion of consolidated cost of sales and depreciation expense. Consolidated gross profit for 2003 was $10,577,000 or 38.7% of net sales compared to consolidated gross profit of $10,466,000 or 42.6% of net sales for 2002. Gross profit for 2003 for the electronic components segment increased by $604,000 or 6.8% to $9,500,000, which represented 39.6% of segment net sales of $23,962,000, compared to a gross profit of $8,896,000 or 41.5% of segment net sales of $21,415,000 in 2002. Gross profit for 2003 included revenue of $226,000 related to the settlement of rate increases on prior year contract costs. Gross profit for 2003 for the microwave micro-circuitry segment decreased by $494,000 to $1,076,000 which represented 29.0% of segment net sales of $3,709,000, compared to $1,570,000 or 39.6% of segment net sales of $3,966,000 in 2002. FMI sales include intersegment sales of $349,000 and $810,000 in 2003 and 2002, respectively.

Selling General and Administrative Expenses

Consolidated selling, general and administrative expenses of $9,536,000 for 2003 increased by $586,000 or 6.6%, and when expressed as a percentage of net sales, decreased by 1.5 percentage points to 34.9% compared to 2002. The dollar increases were primarily due to the $400,000 of additional fees and costs (including accelerated amortization of deferred financing costs) incurred related to the amendment of the Company's prior bank facilities incurred in the second quarter of 2003, and the higher commissions, selling and other professional fee costs incurred throughout 2003.

Research and Development Expenses

Research and development expenses for new products were $1,737,000 for 2003, a planned decrease of $992,000 or 36.4% compared to 2002. Except for $163,000 of research and development expenses at FMI, a decrease of $325,000 from 2002 levels, substantially all of the research and development expenses were related to Multi-Mix® Microtechnology and Multi-Mix PICO® products.

Restructuring Charges

During 2003 the Company reduced its headcount by 14 persons, principally involved in production, manufacturing support, sales and administration. The Company recorded personnel restructuring charges aggregating $160,000, consisting of severance and certain other personnel costs during the last three quarters of 2003. As a result of a decline in orders received from its customers during 2002, the Company reduced head count by 28 persons, principally involved in production, manufacturing support and sales. The Company recorded personnel restructuring charges of $240,000 and $270,000 consisting of severance and certain other personnel costs, during the second and fourth quarters of 2002 which increased the Company's net loss by $510,000.

Operating Loss

Consolidated operating loss for 2003 was $856,000. Operating loss for the electronic components segment for 2003 was $860,000, which included the effect of charges associated with the personnel restructuring charges of $160,000 in the last three quarters of 2003. In the fourth quarter of 2003, $210,000 of income resulted from revenue related to the settlement of rate increases on prior year contract costs. Operating loss for the electronic components segment for 2002 was $1,792,000 after the $468,000 personnel restructuring charges in the second and fourth quarters of 2002. Operating income for the microwave micro-circuitry segment was $4,000 in 2003 compared to operating income of $70,000 for 2002, after inclusion of the $42,000 second quarter personnel restructuring charge.

Interest and Other Expense, Net

Net interest expense was $271,000 for 2003, which compares to net interest expense of $176,000 for 2002. Interest expense for 2003 was principally incurred on borrowings under mortgage and term loans taken out during fiscal year 2002 and the revolving line of credit, and term loans which the Company refinanced during the fourth quarter of 2003 at higher interest rates. Interest expense for 2002 was principally incurred on borrowings under a revolving credit facility and mortgage loan in connection with capital equipment purchases and the building expansion constructed during fiscal year 2001.

Income Taxes

An income tax benefit of $109,000 was recorded for 2003, with an effective tax rate of (10.7%), compared to an income tax provision of $237,000 that was recorded for 2002 related to recording a partial income tax benefit of $282,000 on the 2002 operating loss and tax credits of $132,000 associated with research and development expenditures offset by the impact of providing a $645,000 net valuation allowance against domestic net deferred tax assets. The 2003 tax benefit recorded represents deferred tax benefits associated with FMI's research and development expenses incurred in Canada. No domestic tax benefits have been recorded in 2003.

Due to the uncertainties related to, among other things, the extent and timing of its future taxable income, the Company increased its domestic deferred tax asset valuation allowance by $1,050,000 to $1,350,000 in fiscal year 2002. The Company increased its domestic deferred tax asset valuation allowance by $496,000 to $1,846,000 in fiscal year 2003. The Company's domestic net deferred tax assets have been fully reserved as of January 3, 2004.

Goodwill

During the year ended December 28, 2002, the Company completed the first of the impairment tests of goodwill required under SFAS No. 142, which was adopted effective December 30, 2001. Under these rules, goodwill is no longer subject to amortization but is reviewed for potential impairment annually or upon the occurrence of an impairment indicator. Goodwill of approximately $3,100,000, which arose from the acquisition of FMI in 1999, was previously being amortized on a straight-line basis over twenty years.

Net Loss

The Company recorded a net loss for 2003 of $914,000 compared to a net loss of $2,135,000 for 2002. On a per share basis, the Company recorded a net loss of $.29 per share for 2003 compared to a net loss of $.69 per share for 2002.

The weighted average number of basic shares outstanding increased by approximately 47,000 shares or 1.5% for 2003 compared to 2002. The increase in shares outstanding was primarily due to the issuance of 528,413 shares to DuPont Electronic Technologies during the first quarter of 2002 partly offset by the repurchase of 82,100 shares of stock during the second half of 2002.

Liquidity and Capital Resources

The Company had liquid resources comprised of cash and cash equivalents totaling approximately $2,100,000 at the end of 2004 compared to approximately $450,000 at the end of 2003. The Company's working capital was approximately $8,500,000 and its current ratio was 2.9 to 1 at the end of 2004 compared to $6,800,000 and 2.6 to 1, respectively, at the end of 2003. At January 1, 2005 the Company had available borrowing capacity under its revolving line of credit of $4,200,000.

The Company's planned equipment purchases and other commitments are expected to be funded through cash resources and cash flows that are expected to be provided by operations, and supplemented by a $5,000,000 revolving credit facility, which expires October 8, 2006.

The Company's operating activities provided net positive cash flows of $4,788,000 during 2004 compared to positive cash flows of $1,093,000 during 2003. The primary sources of operating cash flows were net income of $1,198,000 which was reduced by depreciation and amortization of $3,210,000, a reduction in inventories of $268,000, and an aggregate increase in accounts payable and accrued liabilities of $479,000 partly offset by a reduction of customer deposits of $156,000 and an increase in accounts receivable of $118,000 and other current assets of $96,000.

The Company made net capital investments in property, plant and equipment of $1,715,000 during 2004, compared to net capital investments made in property, plant and equipment of $1,097,000 during 2003. These capital expenditures are related to new production and test equipment capabilities in connection with the introduction of new products and enhancements to existing products. The depreciated cost of capital equipment associated with Multi-Mix® Microtechnology was $8,873,000 at the end of 2004, a decrease of $1,191,000 compared to $10,064,000 at the end of fiscal year 2003.

On April 17, 2003, the Company and its prior bank entered into bank modification agreements, that waived compliance with certain covenants and further amended the applicable terms of the agreements and covenants to reduce total availability and change maturity dates of the facility. The loan agreements contained a material adverse change clause, under which its prior Bank, in its good faith opinion, could determine that the Company was in default under the agreements. The Company believed that this clause was a Subjective Acceleration Clause as indicated in EITF 95-22, and, based upon the Company's assessment under those guidelines, among other factors, had classified the amounts as a current liability at December 28, 2002.

On October 8, 2003, the Company completed the refinancing of its revolving credit and term loan obligations with a new credit facility provided by The CIT Group/Business Credit, Inc. ("CIT") that provides for a three-year secured revolving credit, term loan and letter of credit facility for $9,250,000. All obligations due to its prior bank were repaid from the proceeds of such refinancing. The new revolving credit facility combined with the expected cash flows from operations should be sufficient to meet the Company's current obligations and to fund its currently contemplated operations during the next twelve months.

The financing agreement with CIT consists of a $5,000,000 revolving line of credit, that is temporarily reduced by $250,000 until certain conditions are met; a $1,500,000 machinery and equipment term loan ("Term Loan A") and a $2,750,000 real estate term loan ("Term Loan B"). In connection with this financing agreement, the Company was required to place, over the life of the loan, $1,500,000 as restricted cash with CIT. The revolving line of credit is subject to an availability limit under a borrowing base calculation (85% of eligible accounts receivable as defined in the financing agreement plus 100% of the $1,500,000 restricted cash). At January 1, 2005, the Company had available borrowing capacity under its revolving line of credit of $4,200,000. The revolving line of credit bears interest at the prime rate plus 1/2 percent (currently 6.25%). The principal amount of Term Loan A is payable in 60 equal monthly installments of $25,000 and bears interest at the prime rate plus one percent (currently 6.75%). The principal amount of Term Loan B is payable in 84 equal monthly installments of $32,738 and bears interest at the prime rate plus one percent (currently 6.75%). At January 1, 2005, the Company, under the terms of its agreement with CIT, elected to convert $900,000 of Term Loan A and $2,100,000 of Term Loan B from their prime rate base to LIBOR-based interest rate loans. The current LIBOR interest rate options were renewed on October 12, 2004 for six months at an interest rate of 5.49%. The current LIBOR interest rate options will expire April 11, 2005. The revolving line of credit and the term loans are secured by substantially all of the Company's assets located within the United States and the pledge of 65% of the stock of the Company's subsidiaries located in Costa Rica and Canada. The provisions of the financing agreement require the Company to maintain certain financial and other covenants. The Company was in compliance with these covenants at January 1, 2005.

The Company's contractual obligations as of January 1, 2005 are as follows:

Payment due by period (in thousands)

Contractual Obligations	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Long-term debt obligations	$3,683	$ 905	$1,523	$961	$294
Operating lease obligations	554	445	98	11	—
Total	$4,237	$1,350	$1,621	$972	$294

Depreciation and amortization expenses exceeded capital expenditures for new projects and production equipment during 2004 by approximately $1,500,000, and the Company anticipates that depreciation and amortization expenses will exceed capital expenditures in fiscal year 2005 by approximately $800,000. The Company intends to issue up to $1,900,000 of purchase order commitments for capital equipment from various vendors. The Company anticipates that such equipment will be purchased and become operational during fiscal year 2005.

On March 31, 2003, the Company relinquished the balance of the space in its previous Costa Rica facility to its customer. The completion of this transaction resulted in a gain of $71,000 during the second quarter of 2003. The Company reduced its facility occupancy expenses by approximately $22,000 and $87,000 in 2003 and 2002, respectively.

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 new 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.

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 2004, the Company forgave $56,000 of principal and $4,500 of accrued interest and paid a tax gross-up benefit of $6,100. During 2003, the Company forgave $56,000 of principal and $7,000 of accrued interest and paid $8,300 for a tax gross-up benefit. During 2002, the Company forgave $56,000 of principal and $12,000 of accrued interest and paid a tax gross-up benefit of $10,700. The Company estimates that $56,000 of principal and $3,000 of accrued interest will be forgiven in 2005.

During fiscal years 2004, 2003 and 2002, respectively, the Company's General Counsel, KMZ Rosenman, was paid $288,000, $359,000 and $372,000 for providing legal services to the Company. A director of the Company is Counsel to the firm of KMZ Rosenman but does not share in any fees paid by the Company to the law firm.

During fiscal years 2004, 2003 and 2002, the Company retained Career Consultants, Inc. and SK Associates to perform executive searches and to provide other services to the Company. The Company paid an aggregate of $8,000, $40,000 and $24,000 to these companies during 2004, 2003 and 2002, respectively. A director of the Company is the Chairman and Chief Executive Officer of each of these companies.

During fiscal years 2003 and 2002, respectively, a director of the Company was paid $12,000 and $36,000 for providing financial-related consulting services to the Company. This agreement terminated in April 2003.

During each of fiscal years 2004, 2003 and 2002, a director of the Company was paid $36,000 for providing technology-related consulting services to the Company.

During fiscal years 2004, 2003 and 2002, respectively, DuPont Electronic Technologies ("DuPont"), a stockholder, was paid $84,000, $109,000 and $36,000 for providing technological and marketing related personnel and services on a cost-sharing basis to the Company. A director of the Company is an officer of DuPont, but does not share in any of these payments.

Each director who is not an employee of the Company receives a monthly director's fee of $1,500, plus an additional $500 for each meeting of the Board and of any Committees of the Board attended. In addition, the Chair of the Audit Committee receives an annual fee of $2,500 for his services in such capacity. The directors are also reimbursed for reasonable travel expenses incurred in attending Board and Committee meetings. In addition, pursuant to the 2001 Stock Option Plan, each non-employee director is granted an immediately exercisable option to purchase 2,500 shares of the Common Stock of the Company on the date of each Annual Meeting of Stockholders. Each such option has an exercise price equal to the fair market value on the date of such grant and will expire on the tenth anniversary of the date of the grant. On June 17, 2004, non-qualified stock options to purchase an aggregate of 20,000 shares were issued to eight directors at an exercise price of $9.01 per share.

On February 28, 2002, the Company sold to DuPont 528,413 shares of Common Stock, representing approximately 16.6% of the Company's outstanding Common Stock after giving effect to the sale, for an aggregate purchase price of $5,284,000. The Company and DuPont have also agreed to work together to better understand the dynamics of the markets for high-frequency electronic components and modules. David B. Miller, Vice President and General Manager of DuPont, was appointed to the Company's Board of Directors.

On December 13, 2004 Infineon Technologies AG ("Infineon"), at such time a 15.2% holder of the Company's common stock, sold 475,000 shares of the Company's common stock to four purchasers in a privately-negotiated transaction. Two purchasers in such transaction, K Holdings LLC and Hampshire Investments, Limited, each of which is affiliated with Ludwig G. Kuttner, purchased shares representing an aggregate of approximately 9.6% of the Company's common stock. Infineon also assigned to each purchaser certain registration rights to such shares under the existing registration rights agreements Infineon had with the Company. In connection with the transaction, the Company and Infineon terminated the Stock Purchase and Exclusivity Letter Agreement dated April 7, 2000, as amended, which provided that the Company would design, develop and produce exclusively for Infineon certain Multi-Mix® products that incorporate active RF power transistors for use in certain wireless base station applications, television transmitters and certain other applications that are intended for Bluetooth tranceivers.

DuPont and the four purchasers above hold registration rights which currently give them the right to register an aggregate of 1,003,413 shares of Common Stock of the Company.

Recent Accounting Pronouncements

In November 2004, SFAS No. 151, "Inventory Costs (An amendment of ARB No. 43, Chapter 4)," was issued. SFAS No. 151 amends Accounting Research Bulletin ("ARB") No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact that SFAS No. 151 will have on its financial position and results of operations.

In December 2004, SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," was issued. SFAS No. 123R replaces existing requirements of SFAS No. 123 and APB Opinion No. 25 "Accounting for Stock-Based Compensation", and requires public companies to recognize the cost of employee services received in exchange for equity instruments, with limited exceptions. SFAS No. 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. SFAS No. 123R will be effective for interim periods beginning after June 15, 2005. The Company is currently evaluating the effect that SFAS No. 123R will have on its financial position and results of operations, but does not believe that the adoption of SFAS No. 123R will have a material impact on its financial position and results of operations.

The FASB has proposed FASB Staff Position No. 109-a, "Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction Provided to U.S. Based Manufacturers by the American Jobs Creation Act of 2004." On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law by the President. This Act includes tax relief for domestic manufacturers by providing a tax deduction for up to 9 percent (when fully phased in) of the lesser of (a) "qualified production activities income," or (b) taxable income (after the deduction for the utilization of any net operating loss carryforwards). As a result of this Act, an issue has arisen as to whether this deduction should be accounted for as a special deduction or a tax rate reduction under SFAS No. 109. The FASB staff believes that the domestic manufacturing deduction is based on the future performance of specific activities, including the level of wages. Accordingly, the FASB staff believes that the deduction provided for under the Act should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax rate reduction. The Company is currently evaluating the impact that this provision will have on its financial position and results of operations.

Forward-Looking Statements

This Annual Report contains statements relating to future results of the Company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: risks associated with demand for and market acceptance of existing and newly developed products as to which the Company has made significant investments, particularly its Multi-Mix® products; general economic and industry conditions; the possibilities of impairment charges to the carrying value of our Multi-Mix® assets, thereby resulting in charges to our earings; slower than anticipated penetration into the satellite communications, defense and wireless markets; the risk that the benefits expected from the Company's acquisition of Filtran Microcircuits Inc. are not realized; the ability to protect proprietary information and technology; competitive products and pricing pressures; failure of our Original Equipment Manufacturer, or OEM, customers to successfully incorporate our products into their systems; the emergence of new or stronger competitors as a result of consolidation movements in the market; the timing and market acceptance of our or our OEM customers' new or enhanced products; our ability and the ability of our OEM customers to keep pace with the rapid technological changes and short product life cycles in our industry and gain market acceptance for new products and technologies; changes in product mix resulting in unexpected engineering and research and development costs; delays and increased costs in product development, engineering and production; reliance on a small number of significant customers; foreign currency fluctuations between the U.S. and Canadian dollars; risks relating to governmental regulatory actions in communications and defense programs; and inventory risks due to technological innovation and product obsolescence, as well as other risks and uncertainties as are detailed from time to time in the Company's Securities and Exchange Commission filings. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Forward Looking Information Excerpt

1.15

BARNES & NOBLE, INC. (JAN)

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report may contain certain 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) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this report, the words "anticipate," "believe," "estimate," "expect" "intend," "plan" and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, including among others general economic and market conditions, decreased consumer demand for the Company's products, possible disruptions in the Company's computer or telephone systems, possible work stoppages or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores or the inability to obtain suitable sites for new stores, higher-than-anticipated store closing or relocation costs, higher interest rates, the performance of the Company's online initiatives such as Barnes & Noble.com, the performance and successful integration of acquired businesses, the successful and timely completion and integration of the Company's new New Jersey distribution center, the success of the Company's strategic investments, unanticipated increases in merchandise or occupancy costs, unanticipated adverse litigation results or effects, and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph.

Liquidity and Capital Resources Excerpt

1.16

MICHAELS STORES, INC. (JAN)

LIQUIDITY AND CAPITAL RESOURCES

Our cash and equivalents increased $194.1 million, or 57%, from $341.8 million at the end of fiscal 2003 to $535.9 million at the end of fiscal 2004. We require cash principally for day-to-day operations and to finance capital investments, inventory for new stores, inventory replenishment for existing stores, and seasonal working capital needs. In recent years, we have financed our operations, new store openings, Common Stock repurchases, dividend payments, and other capital investments with cash from operations and proceeds from stock option exercises. In addition, borrowings under our Credit Agreement may be an additional source of cash flow to finance future growth and other capital investments.

Cash Flow From Operating Activities

Cash flow provided by operating activities in fiscal 2004 was $427.8 million compared to $289.5 million in fiscal 2003. The increase in cash provided by operating activities was due, in part, to an increase of $24.0 million in net income as a result of sales growth and operating margin expansion, primarily as a result of a greater focus on expense control. In addition, we used $45.6 million less cash in fiscal 2004 compared to the prior year for merchandise inventories, net of accounts payable, primarily as a result of the timing of inventory purchases and related payments. Inventories per Michaels store of $1.010 million at January 29, 2005, decreased 3.3% from $1.045 million at January 31, 2004, as a result of the full implementation of our perpetual inventory and automated merchandise replenishment systems and the corresponding improvement in inventory management. We used $26.4 million less cash related to our income taxes payable, primarily due to tax benefits realized from the exercise of stock options and the timing of tax payments. Additionally, we used $20.4 million less cash for accrued liabilities and other in fiscal 2004 compared to the prior year primarily related to the timing of payments.

Cash Flow From Investing Activities

Cash flow from investing activities was primarily the result of the following capital expenditure activities:

(In thousands)	2004[(1)]	2003[(2)]	2002[(3)]
New and relocated stores and stores not yet opened	$50,307	$ 37,964	$ 51,445
Existing stores	13,257	17,576	18,440
Distribution system expansion, net of building reimbursements	7,124	29,100	17,673
Information systems	15,398	13,053	15,323
Corporate and other	4,820	5,417	6,028
	$90,906	$103,110	$108,909

(1) In fiscal 2004, we incurred capital expenditures related to the opening of 45 Michaels, seven Aaron Brothers, and six Recollections stores, and the relocation of 30 Michaels and one Aaron Brothers store.

(2) In fiscal 2003, we incurred capital expenditures related to the construction of our Illinois distribution center, the opening of 55 Michaels, 10 Aaron Brothers, two Recollections, and one Star Wholesale store, and the relocation of 16 Michaels stores.

(3) In fiscal 2002, we incurred capital expenditures related to the completion of our Hazleton, Pennsylvania distribution center, the expansion of our Lancaster, California distribution center, the opening of 67 Michaels and 13 Aaron Brothers stores, and the relocation of 18 Michaels and one Aaron Brothers store. In addition, we received a reimbursement in the amount of $15.1 million for the expansion of our Lancaster, California distribution center, which was completed in fiscal 2002.

We currently estimate that our capital expenditures will be approximately $116.8 million in fiscal 2005. We anticipate spending approximately $47.9 million to open approximately 45 Michaels, two Aaron Brothers, three Recollections stores, and one Star Wholesale store, and approximately 20 Michaels store relocations; $32.1 million for improvements in existing stores; $7.1 million for new and existing distribution centers; $16.5 million on information systems projects; and $13.2 million for corporate expansion and various other capital investment activities. We expect to spend on average approximately $1.3 million to open a new Michaels store, which includes $601,000 in net inventory and $113,000 of pre-opening costs; and $601,000 to open a new Aaron Brothers store, which includes $136,000 in net inventory and $39,000 of pre-opening costs. We anticipate that our new Michaels stores, as a group, will become profitable within their first 12 months of operation.

During fiscal 2004, we purchased interests in a Massachusetts business trust that invests primarily in auction rate securities with auction reset periods of less than twelve months. The purchase price of these interests was approximately $50.4 million.

Cash Flow From Financing Activities

Beginning in June 2003, Michaels has declared quarterly cash dividends as follows:

Declaration Date	Payable Date	Amount Per Share
Fiscal 2004:		
March 16, 2004	April 30, 2004	$0.06
June 17, 2004	July 30, 2004	0.06
September 16, 2004	October 29, 2004	0.07
December 1, 2004	January 31, 2005	0.07
Fiscal 2003:		
June 19, 2003	July 30, 2003	$0.05
September 23, 2003	October 31, 2003	0.05
December 2, 2003	January 30, 2004	0.05

These dividends reflect the strength of our financial position and our Board of Directors' commitment to encouraging long-term investment by a diverse stockholder base. We did not pay any dividends on our Common Stock prior to fiscal 2003.

Cash used for repurchases of our Common Stock increased $29.6 million from $75.5 million in fiscal 2003 to $105.1 million in fiscal 2004. Common Stock repurchases were $12.8 million in fiscal 2002. The following table sets forth information regarding our Common Stock repurchase plans as of January 29, 2005:

	Shares Authorized for Repurchase	Shares Repurchased	Shares Available for Repurchase
December 5, 2000 repurchase plan (fixed portion)	4,000,000	(4,000,000)	—[1]
December 5, 2000 repurchase plan (variable portion)	54,552	(54,551)	1[2]
September 11, 2002 repurchase plan	2,000,000	(2,000,000)	—[3]
June 18, 2003 repurchase plan	2,000,000	(2,000,000)	—[4]
February 2, 2004 repurchase plan	5,000,000	(3,099,749)	1,900,251[5]

(1) On December 5, 2000, our Board of Directors authorized the repurchase of up to 4.0 million shares of our outstanding Common Stock. By later resolutions, our Board of Directors provided that proceeds of the exercise of options under our 2001 General Stock Option Plan may be used to repurchase shares under the 2000 repurchase plan and that the maximum number of shares authorized to be repurchased under the 2000 repurchase plan may be increased to the extent necessary to so use the proceeds from such option exercises. As of April 2003, we had repurchased and subsequently retired a total of 4.0 million shares under the 2000 repurchase plan at an average price of $11.13 per share and, as a result, we have used the entire fixed portion of the authority originally provided in the 2000 repurchase plan.

(2) In fiscal 2004, we repurchased and subsequently retired 54,551 shares of our Common Stock at an average price of $27.03 per share using proceeds from exercises of stock options granted under the 2001 General Stock Option Plan that were exercised in fiscal 2004.

(3) As of January 2004, we repurchased and subsequently retired the 2.0 million shares of our Common Stock authorized under the 2002 repurchase plan at an average price of $17.73 per share and, as a result, we have used the entire authority originally provided in the 2002 repurchase plan.

(4) In fiscal 2003, we repurchased and subsequently retired approximately 1.2 million shares of our Common Stock authorized under the 2003 repurchase plan at an average price of $21.55 per share. In fiscal 2004, we repurchased and subsequently retired 816,200 shares of our Common Stock authorized under the 2003 repurchase plan at an average price of S24.34 per share and, as a result, we have used the entire authority originally provided in the 2003 repurchase plan.

(5) In fiscal 2004, we repurchased and subsequently retired approximately 3.1 million shares of our Common Stock authorized to be repurchased under the 2004 repurchase plan at an average price of $27.02 per share and, as a result, we had 1,900,251 shares available for repurchase under the plan as of January 29, 2005.

We anticipate that we will continue to repurchase shares of our Common Stock in fiscal 2005. On March 15, 2005, our Board of Directors authorized an additional repurchase plan for up to 3.0 million shares of our outstanding Common Stock. Under the agreements governing our outstanding indebtedness, we can only repurchase shares of our Common Stock if we maintain or comply with specified financial ratios and other covenants. We may also be restricted by regulations of the Securities and Exchange Commission from making future repurchases during certain time periods.

Proceeds from the exercise of outstanding stock options have served as a source of cash for us, and we expect to receive proceeds from the exercise of outstanding stock options and options to be granted under our stock option plans in the future. Proceeds from the exercise of stock options were $35.5 million, $30.7 million, and $34.7 million in fiscal 2004, 2003, and 2002, respectively. Proceeds from the exercise of stock options under our 2001 General Stock Option Plan are required to be used to repurchase shares of our own Common Stock under the 2000 repurchase plan, except where not permitted by law or if there is a compelling need to use the proceeds for other corporate purposes.

Debt

In October 2004, we signed an extension to our existing $200 million unsecured revolving bank credit facility with Fleet National Bank and other lending institutions, which now expires on April 30, 2006. The Credit Agreement requires us to maintain certain financial covenants and limits certain activities, including, among other things, levels of indebtedness, liens, investments, payments of dividends, Common Stock repurchases, mergers and acquisitions, and sales of assets. In addition to extending the term of the Credit Agreement, we obtained the consent of the lenders to permit the prepayment of the Senior Notes due 2009 when they become callable in July 2005, if we have "liquidity" (defined as cash and equivalents plus unused availability under the Credit Agreement) of at least $300 million. Based on our current cash projections, we anticipate calling our Senior Notes in July 2005, which would result in a pre-tax charge to earnings of $12.1 million to be recognized in the period in which we prepay our Senior Notes, representing a combination of a prepayment penalty and the unamortized debt costs associated with the notes.

We are in compliance with all terms and conditions of the Credit Agreement. During fiscal 2004 and 2003, we had no borrowings under our Credit Agreement. No borrowings were outstanding under the Credit Agreement as of January 29, 2005 or January 31, 2004. Borrowings available under the Credit Agreement are reduced by the aggregate amount of letters of credit outstanding under the Credit Agreement ($26.1 million as of January 29, 2005). The following table sets forth certain data related to borrowings under our Credit Agreement:

	2004	2003	2002
Days of borrowings outstanding	—	—	123
Average outstanding borrowings (in thousands)	$ —	$ —	$81,811
Weighted average interest rate	—%	—%	2.8%

General

We believe that our available cash, funds generated by operating activities, funds available under the Credit Agreement, and proceeds from the exercise of stock options will be sufficient to fund planned capital expenditures, working capital requirements, and any anticipated dividend payments or stock repurchases for the foreseeable future.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

All of our significant contractual obligations are fully recorded on our Consolidated Balance Sheets or fully discussed in our Notes to Consolidated Financial Statements.

It is not our business practice to enter into off-balance sheet arrangements, except for arrangements related to operating lease commitments, service contract commitments, and letters of credit, as disclosed in the table below. In addition, it is not our normal policy to issue guarantees to third parties. We currently have no commitments for capital leases and do not expect that to change in the immediate future.

As of January 29, 2005, our contractual obligations were as follows:

		Payments Due By Fiscal Year			
(In thousands)	Total	Less Than 1 Year	1–3 Years	4–5 Years	More Than 5 Years
Long-term debt[1]	$ 200,000	$ —	$ —	$200,000	$ —
Interest on long-term debt[1]	81,708	18,500	37,000	26,208	—
Operating lease commitments[2]	1,783,178	264,775	503,580	417,698	597,125
Other commitments[3]	71,024	39,808	1,508	576	29,132
Deferred compensation[4]	—	—	—	—	—
Purchase obligations[5]	37,843	37,843	—	—	—
	$2,173,753	$360,926	$542,088	$644,482	$626,257

(1) Long-term debt includes our Senior Notes due 2009, which are first callable, in part or in full, in July 2005. We pay interest semi-annually at a rate of $9^1/_4$% per annum. Based on our current cash projections, we anticipate calling our Senior Notes in July 2005, which would result in a pre-tax charge to earnings of $12.1 million to be recognized in the period in which we prepay our Senior Notes, representing a combination of a prepayment penalty and the unamortized debt costs associated with the notes.

(2) Our operating lease commitments generally include non-cancelable leases for property and equipment used in our operations. Excluded from our operating lease commitments are amounts related to insurance, taxes, and common area maintenance associated with property and equipment. Such amounts historically represented approximately $2.90 to $3.80 per selling square foot over the previous five fiscal years.

(3) Other commitments primarily include service contract obligations, letters of credit, and certain post-employment obligations.

(4) Our deferred compensation plan is fully funded and, as such, we have a plan asset recorded on our consolidated balance sheet that substantially offsets the amount of our obligation. Additionally, there is no specific payment date under the terms of the plan. Therefore, we have excluded from this table our obligations pursuant to our deferred compensation plan. Our deferred compensation obligations of $15.6 million were included in our consolidated balance sheet at January 29, 2005, within other long-term liabilities.

(5) Purchase obligations represent legally binding commitments to purchase merchandise inventories, which are made in the normal course of business to meet operational requirements.

Environmental Matters Excerpt

1.17

EASTMAN CHEMICAL COMPANY (DEC)

ENVIRONMENTAL

Certain Eastman manufacturing sites generate hazardous and nonhazardous wastes of which the treatment, storage, transportation, and disposal of which are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP") by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for such cleanup costs. In addition, the Company will be required to incur costs for environmental remediation and closure and postclosure under the Federal Resource Conservation and Recovery Act. Adequate reserves for environmental contingencies have been established in accordance with Eastman's policies as described in Note 1 to the Company's consolidated financial statements. Because of expected sharing of costs, the availability of legal defenses, and the Company's preliminary assessment of actions that may be required, it does not believe its liability for these environmental matters, individually or in the aggregate, will be material to the Company's consolidated financial position, results of operations, or cash flows.

The Company accrues environmental remediation costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. This undiscounted accrued amount reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, and chemical control regulations and testing requirements could result in higher or lower costs. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of $25 million to the maximum of $45 million at December 31, 2004.

In addition to remediation activities, the Company establishes reserves for closure/postclosure costs associated with the environmental assets it maintains. Environmental assets include but are not limited to landfills, water treatment facilities, and ash ponds. When these types of assets are constructed, a reserve is established for the anticipated future environmental costs associated with the closure of the site asset based on its expected life. These future expenses are charged into earnings over the estimated useful life of the assets. Reserves related to environmental assets accounted for approximately 55% of the total environmental reserve at December 31, 2004. Currently, the Company's environmental assets are expected to be no longer useable at various different times over the next 50 years. If the Company were to invest in numerous new environmental assets, or, these assets were to require closure a significant number of years before the Company anticipated they would, the amortization on them would increase, and could have a material negative impact on the Company's financial condition and results of operations. The Company views the likelihood of this occurrence to be remote, and does not anticipate, based on its past experience with this type of planned remediation, that an additional accrual related to environmental assets will be necessary.

At December 31, 2004 and 2003, the Company had recognized environmental contingencies of approximately $56 million and $61 million, respectively, representing the minimum or best estimate for remediation costs and, for closure/postclosure costs, the amount accrued to date over the facilities estimated useful lives.

The Company's estimated cash expenditures related to environmental protection and improvement were approximately $184 million, $187 million, and $195 million in 2004, 2003 and 2002, respectively. Cash expenditures estimated for 2005 are expected to remain at approximately $190 million. These amounts pertain primarily to operating costs associated with environmental protection equipment and facilities, but also include expenditures for construction and development. The Company does not expect future environmental capital expenditures arising from requirements of recently promulgated environmental laws and regulations to materially increase the Company's planned level of capital expenditures for environmental control facilities.

Market Risk Information Excerpt

1.18

CORN PRODUCTS INTERNATIONAL, INC. (DEC)

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

International Operations and Foreign Exchange

The Company has operated a multinational business subject to the risks inherent in operating in foreign countries and with foreign currencies for many years. The Company's US dollar denominated results are subject to foreign currency exchange fluctuations and its operations are subject to political, economic and other risks. Economic changes, terrorist activity and political unrest may result in business interruption or decreased demand for the Company's products. The Company's success will depend in part on its ability to manage continued global political and/or economic uncertainty, especially in the Company's significant geographical markets, as well as any political or economic disruption due to terrorist activities.

The Company primarily sells world commodities and, historically, local prices have adjusted relatively quickly to offset the effect of a local devaluation. The Company may occasionally hedge commercial transactions and certain liabilities that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction.

In each country where we conduct business, the business and assets are subject to varying degrees of risk and uncertainty. The Company insures its business and assets in each country against insurable risks in a manner that it deems appropriate. Because of its geographic dispersion, the Company believes that a loss from non-insurable events in any one country would not have a material adverse effect on the Company's operations as a whole.

Uncertain Ability to Generate Adequate Financial Performance

The Company's ability to generate operating income and to increase profitability depends to a large extent upon its ability to price finished products at a level that will cover manufacturing and raw material costs and provide a profit margin. The Company's ability to maintain appropriate price levels is determined by a number of factors largely beyond the Company's control, such as aggregate industry supply and market demand, which may vary from time to time, and the economic condition of the geographic region of the Company's operations.

Uncertain Ability to Contain Costs or to Fund Capital Expenditures

The Company's future profitability and growth also depends on the Company's ability to contain operating costs and per-unit product costs, to maintain and/or implement effective cost control programs and to develop value-added products and new product applications successfully, while at the same time maintaining competitive pricing and superior quality products, customer service and support. The Company's ability to maintain a competitive cost structure depends on continued containment of manufacturing, delivery and administrative costs as well as the implementation of cost-effective purchasing programs for raw materials, energy and related manufacturing requirements. The Company plans to focus capital expenditures on implementing productivity improvements and, if supported by profitable customer demand, expand the production capacity of its facilities. The Company may need additional funds for working capital as the Company grows and expands its operations. To the extent possible, the Company expects to fund its capital expenditures from operating cash flow. If the Company's operating cash flow is insufficient to fund such expenditures, the Company may either reduce its capital expenditures or utilize certain general credit facilities. The Company may also seek to generate additional liquidity through the sale of debt or equity securities in private or public markets or through the sale of non-productive assets. The Company cannot provide any assurance that cash flows from operations will be sufficient to fund anticipated capital expenditures or that additional funds can be obtained from financial markets or from the sale of assets at terms favorable to the Company. If the Company is unable to generate sufficient cash flows or raise sufficient additional funds to cover capital expenditures, it may not be able to achieve its desired operating efficiencies and expansion plans, which may adversely impact the Company's competitiveness and, therefore, its results of operations.

Interest Rate Exposure

Approximately 48 percent of the Company's borrowings are fixed rate bonds and loans. Interest on the remaining 52 percent of the Company's borrowings is subject to change based on changes in short-term rates, which could affect our interest costs. Included in the floating rate indebtedness information above is the Company's $200 million Senior Notes due 2009 which, through the use of interest rate swaps, has effectively been converted from fixed to floating rate debt. Included in the fixed rate indebtedness information above is $18 million of Korean term loan debt which, through the use of cross currency interest rate swaps, has effectively been converted from floating rate US dollar to fixed rate Korean Won debt. See also Note 8 of the Notes to the Consolidated Financial Statements for further information. A hypothetical increase of 1 percentage point in the weighted average floating interest rate for 2004 would have increased interest expense and reduced pretax income for 2004 by approximately $3 million.

At December 31, 2004 and 2003, the carrying and fair values of long-term debt, including the current portion, were as follows:

	2004		2003	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
8.25% senior notes, due 2007	$254	$280	$253	$281
8.45% senior notes, due 2009	199	233	199	223
Korean loans	27	27	42	42
Total	$480	$540	$494	$546

Competition

The Company operates in a highly competitive environment. Almost all of the Company's products compete with virtually identical or similar products manufactured by other companies in the corn refining industry. In the United States, there are other corn refiners, several of which are divisions of larger enterprises that have greater financial resources and some of which, unlike the Company, have vertically integrated their corn refining and other operations. Many of the Company's products also compete with products made from raw materials other than corn. Fluctuation in prices of these competing products may affect prices of, and profits derived from, the Company's products. Competition within markets is largely based on price, quality and product availability.

Price Volatility and Uncertain Availability of Corn

Corn purchasing costs, which include the price of the corn plus delivery cost, account for 40 percent to 65 percent of the Company's product costs. The price and availability of corn is influenced by economic and industry conditions, including supply and demand factors such as crop disease and severe weather conditions such as drought, floods or frost that are difficult to anticipate and cannot be controlled by the Company. In addition, government programs supporting sugar prices indirectly impact the price of corn sweeteners, especially high fructose corn syrup. Due to market volatility, the Company cannot assure that it can adequately pass potential increases in the cost of corn on to customers through product price increases or purchase quantities sufficient to sustain or increase its profitability.

Commodity Costs

The Company's finished products are made primarily from corn. In North America, the Company sells a large portion of finished product at firm prices established in supply contracts typically lasting for periods of up to one year. In order to minimize the effect of volatility in the cost of corn related to these firm-priced supply contracts, the Company enters into corn futures contracts, or takes hedging positions in the corn futures market. From time to time, the Company may also enter into anticipatory hedges. These contracts typically mature within one year. At expiration, the Company settles the derivative contracts at a net amount equal to the difference between the then-current price of corn and the fixed contract price. While these hedging instruments are subject to fluctuations in value, changes in the value of the underlying exposures the Company is hedging generally offset such fluctuations. While the corn futures contracts or hedging positions are intended to minimize the volatility of corn costs on operating profits, occasionally the hedging activity can result in losses, some of which may be material. Outside of North America, sales of finished product under long-term, firm-priced supply contracts are not material.

Energy costs for the Company represent a significant portion of its operating costs. The primary use of energy is to create steam in the production process and in dryers to dry product. The Company consumes coal, natural gas, electricity, wood and fuel oil to generate energy. The market prices for these commodities vary depending on supply and demand, world economies and other factors. The Company purchases these commodities based on its anticipated usage and the future outlook for these costs. The Company cannot assure that it will be able to purchase these commodities at prices that it can adequately pass on to customers to sustain or increase profitability. The Company periodically uses derivative financial instruments to hedge portions of its natural gas costs.

The Company's commodity price hedging instruments generally relate to contracted firm-priced business. Based on the Company's overall commodity hedge exposure at December 31, 2004, a hypothetical 10 percent decline in market prices applied to the fair value of the instruments would result in a charge to other comprehensive income (loss) of approximately $23 million, net of income tax benefit. It should be noted that any change in the fair value of the contracts, real or hypothetical, would be substantially offset by an inverse change in the value of the underlying hedged item.

Volatility of Markets

The market price for the common stock of the Company may be significantly affected by factors such as the announcement of new products or services by the Company or its competitors; technological innovation by the Company, its competitors or other vendors; quarterly variations in the Company's operating results or the operating results of the Company's competitors; general conditions in the Company's and its customers' markets; changes in the earnings estimates by analysts or reported results that vary materially from such estimates. In addition, the stock market has experienced significant price fluctuations that have affected the market prices of equity securities of many companies that have been unrelated to the operating performance of any individual company. These broad market fluctuations may materially and adversely affect the market price of the Company's common stock.

Consumer Preferences and Perceptions

Changes in consumer preferences and perceptions may lessen the demand for the Company's products, which would reduce sales and harm the Company's business. Food products are often affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. The Company's sales could also be affected by changing consumer tastes—for instance, if prevailing health or dietary preferences cause consumers to avoid food products containing sweetener products in favor of foods that are perceived as more healthy.

Biotechnology

The commercial success of agricultural products developed through biotechnology depends in part on public acceptance of their development, cultivation, distribution and consumption. Public attitudes can be influenced by claims that genetically modified products are unsafe for consumption or that they pose unknown risks to the environment even if such claims are not based on scientific studies. These public attitudes can influence regulatory and legislative decisions about biotechnology even where they are approved. The sale of the Company's products may in the future be delayed or impaired because of adverse public perception regarding the safety of the Company's products and the potential effects of these products on animals, human health and the environment.

Labor Disputes

Approximately 34 percent of US and 47 percent of non-US employees are unionized. Strikes, lockouts or other work stoppages or slow downs involving the Company's unionized employees could have a material adverse effect on the Company.

Uncertainty of Dividends

The payment of dividends is at the discretion of the Company's Board of Directors and will be subject to the Company's financial results and the availability of surplus funds to pay dividends. No assurance can be given that the Company will continue to pay dividends.

Certain Anti-Takeover Effects

Certain provisions of the Company's Amended and Restated Certificate of Incorporation (the "Corn Products Charter") and the Company's Amended By-Laws (the "Corn Products By-Laws") and of the Delaware General Corporation Law (the "DGCL") may have the effect of delaying, deterring or preventing a change in control of the Company not approved by the Company's Board. These provisions include (i) a classified Board of Directors, (ii) a requirement of the unanimous consent of all stockholders for action to be taken without a meeting, (iii) a requirement that special meetings of stockholders be called only by the Chairman of the Board or the Board of Directors, (iv) advance notice requirements for stockholder proposals and nominations, (v) limitations on the ability of stockholders to amend, alter or repeal the Corn Products Amended By-Laws and certain provisions of the Corn Products Charter, (vi) authorization for the Company's Board to issue without stockholder approval preferred stock with such terms as the Board of Directors may determine and (vii) authorization for the Company's Board to consider the interests of creditors, customers, employees and other constituencies of the Company and its subsidiaries and the effect upon communities in which the Company and its subsidiaries do business, in evaluating proposed corporate transactions. With certain exceptions, Section 203 of the DGCL ("Section 203") imposes certain restrictions on mergers and other business combinations between the Company and any holder of 15 percent or more of the Company's Common Stock. In addition, the Company has adopted a stockholder rights plan (the "Rights Plan"). The Rights Plan is designed to protect stockholders in the event of an unsolicited offer and other takeover tactics, which, in the opinion of the Company's Board, could impair the Company's ability to represent stockholder interests. The provisions of the Rights Plan may render an unsolicited takeover of the Company more difficult or less likely to occur or might prevent such a takeover.

These provisions of the Corn Products Charter and Corn Products By-Laws, the DGCL and the Rights Plan could discourage potential acquisition proposals and could delay or prevent a change in control of the Company, although such proposals, if made, might be considered desirable by a majority of the Company's stockholders. Such provisions could also make it more difficult for third parties to remove and replace the members of the Company's Board. Moreover, these provisions could diminish the opportunities for a stockholder to participate in certain tender offers, including tender offers at prices above the then-current market value of the Company's Common Stock, and may also inhibit increases in the market price of the Company's Common Stock that could result from takeover attempts or speculation.

Reliance on Major Customers

A substantial portion of the Company's 2004 worldwide sales were made to companies engaged in the processed foods industry and the soft drink industry. Additionally, a significant portion of the Company's 2004 worldwide sales were made to the animal feed market. If the Company's processed foods customers, soft drink customers or animal feed customers were to substantially decrease their purchases, the business of the Company might be materially adversely affected. However, the Company believes there is no concentration of risk with any single customer or supplier, or small group of customers or suppliers, whose failure or non performance would materially affect the Company's results.

Critical Accounting Policies Excerpt

1.19

COOPER CAMERON CORPORATION (DEC)

CRITICAL ACCOUNTING POLICIES

The Company believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements. These policies and the other sections of the Company's Management's Discussion and Analysis of Results of Operations and Financial Condition have been reviewed with the Company's Audit Committee of the Board of Directors.

Revenue Recognition

The Company generally recognizes revenue once the following four criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery of the equipment has occurred or services have been tendered, (iii) the price of the equipment or service is fixed and determinable, and (iv) collectibility is reasonably assured. For certain engineering, procurement and construction-type contracts, which typically include the Company's subsea systems and processing equipment contracts, revenue is recognized in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). Under SOP 81-1, the Company recognizes revenue on these contracts using a units-of-completion method. Under the units-of-completion method, revenue is recognized once the manufacturing process is complete for each piece of equipment specified in the contract with the customer, including customer inspection and acceptance, if required by the contract. Approximately 15% of the Company's revenue for the year ended December 31, 2004 was recognized under SOP 81-1.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses that may result from the inability of its customers to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the current and projected financial condition of specific customers. Were the financial condition of a customer to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required.

Inventories

The Company's aggregate inventories are carried at cost or, if lower, net realizable value. Inventories located in the United States and Canada are carried on the last-in, first-out (LIFO) method. Inventories located outside of the United States and Canada are carried on the first-in, first-out (FIFO) method. During 2004 and 2003, the Company reduced its LIFO inventory levels. These reductions resulted in a liquidation of certain low-cost inventory layers. As a result, the Company recorded non-cash LIFO income of $9.7 million and $15.9 million for the years ended December 31, 2004 and 2003, respectively. The Company writes down its inventory for estimated obsolescence or excess quantities on hand equal to the difference between the cost of the inventory and its estimated realizable value. During 2004, the Company revised its estimate of realizable value on certain of its excess inventory. The impact of this revision was to increase the required reserve as of December 31, 2004 by $6.5 million. If future conditions cause a reduction in the Company's current estimate of realizable value, additional provisions may be required.

Product Warranty

The Company provides for the estimated cost of product warranties at the time of sale based upon historical experience, or, in some cases, when specific warranty problems are encountered. Should actual product failure rates or repair costs differ from the Company's current estimates, revisions to the estimated warranty liability would be required. See Note 7 of the Notes to Consolidated Financial Statements for additional details surrounding the Company's warranty accruals.

Contingencies

The Company accrues for costs relating to litigation, claims and other contingent matters, including tax contingencies and liquidated damage liabilities, when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to income in the period when final determination is made.

Deferred Tax Assets

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized, considering future taxable income and ongoing prudent and feasible tax planning strategies. As of December 31, 2004, the Company had a net operating loss carryforward for U.S. tax purposes of approximately $294.0 million, which does not begin to expire until 2020. Currently, the Company believes it is more likely than not that it will generate sufficient future taxable income to fully utilize this net operating loss carryforward. Accordingly, the Company has not recorded a valuation allowance against this net operating loss carryforward. In the event the oil and gas exploration activity in the United States deteriorates over an extended period of time, the Company may determine that it would not be able to fully realize this deferred tax asset in the future. Should this occur, a valuation allowance against this deferred tax asset would be charged to income in the period such determination was made.

Goodwill

The Company reviews the carrying value of goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), which requires that the Company estimate the fair value of each of its reporting units annually and compare such amounts to their respective book values to determine if an impairment of goodwill is required. For the 2004 and 2003 evaluations, the fair value was determined using discounted cash flows and other market-related valuation models. Certain estimates and judgments are required in the application of the fair value models. Based upon the Company's evaluations for 2004 and 2003, no impairment of goodwill was required. However, should the Company's estimate of the fair value of any of its reporting units decline dramatically in future periods, an impairment of goodwill could be required.

Pension Accounting

The Company accounts for its defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS 87), which requires that amounts recognized in the financial statements be determined on an actuarial basis. See Note 8 of the Notes to Consolidated Financial Statements for the amounts of pension expense included in the Company's Results of Operations and the Company's contributions to the pension plans for the years ended December 31, 2004, 2003 and 2002, as well as the unrecognized net loss at December 31, 2004 and 2003.

The assumptions used in calculating the pension amounts recognized in the Company's financial statements include discount rates, interest costs, expected return on plan assets, retirement and mortality rates, inflation rates, salary growth and other factors. The Company bases the discount rate assumptions on investment yields available at the measurement date on an index of long-term, AA-rated corporate bonds. The Company's inflation assumption is based on an evaluation of external market indicators. The expected rate of return on plan assets reflects asset allocations, investment strategy and the views of various investment professionals. Retirement and mortality rates are based primarily on actual plan experience. In accordance with SFAS 87, actual results that differ from these assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension obligations and future expense.

A significant reason for the increase in pension expense in 2004 and 2003 results from the difference between the actual and assumed rates of return on plan assets. During 2001 and 2002, the Company's pension assets earned substantially less than the assumed rate of return in those years. In accordance with SFAS 87, the difference between the actual and assumed rate of return is being amortized over the estimated average period to retirement of the individuals in the plans. In 2003, and again in 2004, the Company lowered the assumed rate of return for the assets in these plans. The plans earned significantly more than the assumed rates of return in 2003 and slightly less than the assumed rate of return in 2004.

The following table illustrates the sensitivity to a change in certain assumptions used in (i) the calculation of pension expense for the year ended December 31, 2005, and (ii) the calculation of the projected benefit obligation (PBO) at December 31, 2004 for the Company's pension plans:

(Dollars in millions)	Impact on 2005 Pre-Tax Pension Expense	Impact on PBO at December 31, 2004
Change in assumption:		
25 basis point decrease in discount rate	$ 1.3	$ 14.6
25 basis point increase in discount rate	$(1.2)	$(14.4)
25 basis point decrease in expected return on assets	$ 1.0	
25 basis point increase in expected return on assets	$(1.0)	

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			
	2004	**2003**	**2002**	**2001**
Industry segments				
Revenue	406	420	404	412
Operating income or loss	304	318	310	311
Identifiable assets	366	378	389	400
Depreciation expense	374	395	406	402
Capital expenditures	337	354	367	373
Goodwill	174	127	N/C*	N/C*
Geographic area				
Revenue	321	323	296	295
Operating income or loss	65	68	48	66
Identifiable assets	96	89	82	85
Depreciation expense	49	40	37	36
Capital expenditures	46	35	34	35
Goodwill	18	9	N/C*	N/C*
Export sales	33	37	33	43
Sales to major customers	136	178	137	138

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

1.24

AGCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets (In Part)

Changes in the carrying amount of goodwill during the years ended December 31, 2004, 2003 and 2002 are summarized as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Consolidated
Balance as of December 31, 2001	$169.4	$ 70.0	$ 92.5	$331.9
Transitional impairment losses	(10.2)	(17.5)	—	(27.7)
Acquisitions	4.9	—	—	4.9
Adjustment to purchase price allocations	3.2	—	0.4	3.6
Reversal of unused restructuring reserves	—	—	(2.2)	(2.2)
Foreign currency translation	—	(17.4)	14.0	(3.4)
Balance as of December 31, 2002	167.3	35.1	104.7	307.1
Adjustment to purchase price allocations	(1.8)	—	(0.1)	(1.9)
Foreign currency translation	—	7.2	19.3	26.5
Balance as of December 31, 2003	165.5	42.3	123.9	331.7
Acquisitions	—	68.8	289.6	358.4
Foreign currency translation	—	9.7	30.8	40.5
Balance as of December 31, 2004	$165.5	$120.8	$444.3	$730.6

15. Segment Reporting

The Company has four reportable segments: North America; South America; Europe/Africa/Middle East and Asia/Pacific. Each regional segment distributes a full range of agricultural equipment and related replacement parts. The Company evaluates segment performance primarily based on income from operations. Sales for each regional segment are based on the location of the third-party customer. Beginning in the first quarter of 2004, the Company modified its segment reporting from five reportable segments to four reportable segments. The Company no longer considers the Sprayers division a reportable segment under the requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," due to organizational changes and changes in the distribution and servicing of certain Sprayer products which became effective January 1, 2004. Therefore, the segment disclosures for 2003 and 2002 have been reclassified to conform to the presentation going forward. All intercompany transactions between the segments have been eliminated. The Company's selling, general and administrative expenses and engineering expenses, excluding corporate expense, are charged to each segment based on the region and division where the expenses are incurred. As a result, the components of operating income for one segment may not be comparable to another segment. Segment results for the years ended December 31, 2004, 2003 and 2002 are as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Asia/Pacific	Consolidated
2004					
Net sales	$1,412.5	$796.8	$2,873.0	$191.0	$5,273.3
Income from operations	32.6	126.6	186.8	32.9	378.9
Depreciation	22.3	10.4	47.3	4.3	84.3
Assets	766.9	298.0	1,349.5	63.6	2,478.0
Capital expenditures	13.5	11.1	49.1	4.7	78.4
2003					
Net sales	$1,176.2	$416.3	$1,758.8	$144.0	$3,495.3
Income from operations	39.6	61.2	113.6	23.2	237.6
Depreciation	17.0	5.9	32.8	3.1	58.8
Assets	685.2	222.0	836.4	47.3	1,790.9
Capital expenditures	15.7	14.0	46.5	2.5	78.7
2002					
Net sales	$1,039.2	$270.8	$1,505.6	$107.1	$2,922.7
Income from operations	30.7	30.6	133.2	19.4	213.9
Depreciation	15.0	4.3	26.0	2.5	47.8
Assets	742.0	127.2	634.4	37.2	1,540.8
Capital expenditures	15.5	8.8	30.6	—	54.9

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

	2004	2003	2002
Segment income from operations	$ 378.9	$ 237.6	$ 213.9
Corporate expenses	(39.0)	(23.4)	(22.2)
Restricted stock compensation	(0.5)	(0.6)	(44.1)
Restructuring and other infrequent expenses	(0.1)	(27.6)	(42.7)
Amortization of intangibles	(15.8)	(1.7)	(1.4)
Consolidated income from operations	$ 323.5	$ 184.3	$ 103.5
Segment assets	$2,478.0	$1,790.9	$1,540.8
Cash and cash equivalents	325.6	147.0	34.3
Receivables from affiliates	7.9	0.5	8.9
Investments in affiliates	114.5	91.6	78.5
Other current and noncurrent assets	402.5	391.6	293.1
Intangible assets, net	238.2	86.1	86.3
Goodwill	730.6	331.7	307.1
Consolidated total assets	$ 4,297	$2,839.4	$2,349.0

Net sales by customer location for the years ended December 31, 2004, 2003 and 2002 were as follows (in millions):

	2004	2003	2002
Net sales:			
United States	$1,168.1	$ 968.8	$ 881.4
Canada	176.9	169.3	129.5
Germany	470.1	433.1	411.4
France	604.7	357.6	273.4
United Kingdom and Ireland	301.0	204.6	168.1
Finland and Scandinavia	634.4	160.8	142.9
Other Europe	673.6	447.6	348.1
South America	786.0	409.7	263.4
Middle East	127.1	112.6	123.4
Asia	72.0	56.9	46.9
Australia	119.0	87.1	60.2
Africa	62.2	42.6	37.3
Mexico, Central America and Caribbean	78.2	44.6	36.7
	$5,273.3	$3,495.3	$2,922.7

Net sales by product for the years ended December 31, 2004, 2003 and 2002 were as follows (in millions):

	2004	2003	2002
Net sales:			
Tractors	$3,394.6	$2,040.9	$1,712.1
Combines	361.8	301.7	202.1
Sprayers	265.8	232.3	226.9
Other machinery	551.4	377.9	286.7
Replacement parts	699.7	542.5	494.9
	$5,273.3	$3,495.3	$2,922.7

Property, plant and equipment by country as of December 31, 2004 and 2003 was as follows (in millions):

	2004	2003
United States	$105.6	$108.8
Finland	134.5	—
Germany	137.5	121.8
Brazil	101.8	51.5
France	89.4	86.0
Other	24.5	66.1
	$ 593.3	$ 434.2

1.25

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Goodwill and Other Intangibles (In Part)

A summary of changes in the Company's goodwill during the period ended December 31, 2004, by segment is as follows:

(In millions)	2003	Acquisitions	Adjustments	2004
Marine Engine	$ 23.5	$ 30.7	$5.1	$ 59.3
Boat	213.1	68.7	3.1	284.9
Fitness	265.6	0.3	1.4	267.3
Bowling & Billiards	12.9	0.4	—	13.3
Total	$515.1	$100.1	$9.6	$624.8

A summary of changes in the Company's goodwill during the period ended December 31, 2003, by segment is as follows:

(In millions)	2002	Acquisitions	Adjustments	2003
Marine Engine	$ 16.7	$ 7.9	$(1.1)	$ 23.5
Boat	172.8	37.4	2.9	213.1
Fitness	261.9	2.4	1.3	265.6
Bowling & Billiards	1.4	11.5	—	12.9
Total	$452.8	$59.2	$ 3.1	$515.1

Adjustments in 2004 and 2003 primarily relate to the impact of foreign currency translation and changes in the fair value of net assets subject to purchase accounting adjustments, primarily arising from the Company's acquisitions as described in *Note 5, Acquisitions*. There were no impairment charges for the years ended December 31, 2004 and 2003.

4. Segment Information

The Company is a manufacturer and marketer of leading consumer brands. The Company operates in four reportable segments: Marine Engine, Boat, Fitness and Bowling & Billiards.

The Company's Marine Engine segment consists of the Mercury Marine Group and Brunswick New Technologies operations (BNT). The Mercury Marine Group manufactures and markets a full range of outboard engines, sterndrive engines, inboard engines, water-jet propulsion systems and parts and accessories, which are principally sold directly to boatbuilders, including the Company's Boat segment, or through marine retail dealers worldwide. The Mercury Marine Group also manufactures and distributes boats in certain international markets. The Company's engine manufacturing plants are located primarily in the United States, and sales are primarily in the United States, Europe and Asia. Additionally, BNT manufactures and markets engine electronics and controls and other marine technologies, including navigation systems, chart plotters, telematics and global positioning systems.

The Boat segment designs, manufactures and markets fiberglass pleasure boats, high-performance boats, offshore fishing boats and aluminum fishing, deck and pontoon boats, which are marketed primarily through dealers. The segment also owns and operates marine parts and accessories distribution and manufacturing businesses. The segment's products are manufactured primarily in the United States. Sales to the segment's largest boat dealer, MarineMax, Inc., which has multiple locations, comprised approximately 18 percent of Boat segment sales in 2004.

The Fitness segment designs, manufactures, and markets fitness equipment, including treadmills, total-body cross trainers, stationary bikes and strength-training equipment. These products are manufactured or sourced from domestic or foreign locations. Fitness equipment is sold primarily in the United States, Europe and Asia to health clubs, military, government, corporate and university facilities, and to consumers through specialty retail shops.

The Bowling & Billiards segment designs, manufactures and markets bowling capital equipment and associated parts and supplies, including lanes, pinsetters, automatic scorers; bowling balls and other accessories; billiards, Air Hockey and foosball tables and accessories; and operates bowling centers. Products are manufactured or sourced from domestic and foreign locations. Bowling products and commercial billiards, Air Hockey and foosball tables are sold through a direct sales force in the United States and through distributors in the United States and foreign markets, primarily Europe and Asia. Consumer billiards equipment is predominantly sold in the United States and is distributed primarily through dealers.

Information as to the operations of the Company's operating segments is set forth below:

Operating Segments

	Net Sales to Customers			Operating Earnings			Total Assets	
(In millions)	2004	2003	2002	2004	2003	2002	2004	2003
Marine Engine	$2,353.2	$1,908.9	$1,705.2	$243.2	$171.1	$170.9	$1,043.7	$ 869.6
Boat	2,271.1	1,616.9	1,405.3	149.3	63.9	19.0	1,206.2	864.8
Marine eliminations	(391.4)	(275.1)	(233.0)	0.1	—	—	—	—
Total Marine	4,232.9	3,250.7	2,877.5	392.6	235.0	189.9	2,249.9	1,734.4
Fitness[(A)]	558.3	486.6	456.7	45.2	29.8	44.9	667.9	635.9
Bowling & Billiards	442.4	392.4	377.7	41.7	25.6	21.4	373.8	349.0
Eliminations	(4.3)	(1.0)	—	(0.1)	—	—	—	—
Corporate/other	—	—	—	(78.7)	(69.0)	(59.6)	1,054.8	883.2
Total	$5,229.3	$4,128.7	$3,711.9	$400.7	$221.4	$196.6	$4,346.4	$3,602.5

[(A)] Operating Earnings for the year ended 2003, include a $25.0 million pre-tax litigation charge in connection with a patent infringement lawsuit relating to the design of a cross trainer.

Marine eliminations are eliminations between the Marine Engine and Boat segments for sales transactions consummated at arm's length. Corporate/Other includes such items as corporate staff and overhead, and financial results of the Company's subsidiary Brunswick Financial Services.

	Depreciation			Amortization		
(In millions)	2004	2003	2002	2004	2003	2002
Marine Engine	$ 58.2	$ 54.8	$ 56.7	$ 1.7	$ 0.8	$ 0.1
Boat	45.5	46.2	44.5	15.6	12.6	11.4
Fitness	11.9	12.5	12.2	0.6	0.4	0.5
Bowling & Billiards	20.1	19.4	20.3	1.0	0.6	0.1
Corporate	2.9	3.3	2.6	—	—	—
Total	$138.6	$136.2	$136.3	$ 18.9	$ 14.4	$ 12.1

	Capital Expenditures			Research & Development Expense		
(In millions)	2004	2003	2002	2004	2003	2002
Marine Engine	$ 76.4	$ 68.1	$ 44.8	$ 82.0	$ 70.0	$ 61.7
Boat	56.3	38.5	41.0	27.2	25.6	22.1
Fitness	8.3	14.9	9.4	16.0	16.9	14.4
Bowling & Billiards	27.7	34.8	15.7	5.9	5.7	4.6
Corporate	2.6	3.5	1.7	—	—	—
Total	$171.3	$159.8	$112.6	$131.1	$118.2	$102.8

Geographic Segments

	Net Sales to Customers			Total Assets	
(In millions)	2004	2003	2002	2004	2003
United States	$3,540.1	$2,886.5	$2,707.2	$2,505.8	$2,131.6
International	1,689.2	1,242.2	1,004.7	785.8	587.7
Corporate/Other	—	—	—	1,054.8	883.2
Total	$5,229.3	$4,128.7	$3,711.9	$4,346.4	$3,602.5

The Company evaluates performance based on business segment operating earnings. Operating earnings of segments do not include the expenses of corporate administration, other expenses and income of a non-operating or strategic nature, interest expense or provisions for income taxes. Corporate assets consist primarily of cash and marketable securities, prepaid income taxes, and investments in unconsolidated affiliates.

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DANA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 6 (In Part): Goodwill

Changes in goodwill during the years ended December 31, 2004 and 2003, by operating segment, are presented in the following table.

	Balance at December 31, 2003	Discontinued Operations Effect	Effect of Currency and Other	Balance at December 31, 2004
Automotive Systems Group	$431	$ —	$32	$463
Heavy Vehicle Technology & Systems Group	125	—	(2)	123
Other	2	—	5	7
	$558	$ —	$35	$593

	Balance at December 31, 2002	Discontinued Operations Effect	Effect of Currency and Other	Balance at December 31, 2003
Automotive Systems Group	$418	$ —	$13	$431
Heavy Vehicle Technology & Systems Group	118	—	7	125
Automotive Aftermarket Group	30	(32)	2	—
Other	2	—	—	2
	$568	$(32)	$22	$558

Note 22. Business Segments

In the first quarter of 2004, we announced the combination of the Automotive Systems Group (ASG) and the Engine and Fluid Management Group (EFMG) into a single business unit which retained the ASG name. The operations of both the ASG and EFMG produce components primarily for the light vehicle original equipment (OE) manufacturer market. The combination enables their global operations serving these markets to focus resources on their common customers. The consolidation of sales, marketing and similar functions makes it impractical to continue evaluating these units as separate operations. Accordingly, our segments for the year ended December 31, 2004 consist of our Strategic Business Units (SBUs)—the expanded ASG and the Heavy Vehicle Technologies and Systems Group (HVTSG)—and DCC. The segment data for the years ended December 31, 2003 and 2002 has been restated to reflect the combination of ASG and EFMG.

The ASG sells axles, driveshafts, drivetrains, frames, sealing, bearing, fluid-management and power-cylinder products, chassis products and related modules and systems for the automotive light vehicle markets and driveshafts for the commercial vehicle market.

The ASG also sells sealing, bearing, fluid-management and power-cylinder products for the automotive, light and commercial vehicle, leisure and outdoor power equipment markets.

The HVTSG sells axles, brakes, driveshafts, chassis and suspension modules, ride controls and related modules and systems for the commercial and off-highway vehicle markets and transmissions and electronic controls for the off-highway market.

The following table presents sales by product for those products representing more than 10% of consolidated sales.

Product	2004	2003	2002
Axles	$3,907	$3,378	$3,271
Driveshafts	1,246	1,031	985
Structures	1,072	851	737
Sealing products and bearings	872	761	697
Fluid systems	854	833	856
Other	1,105	1,064	955
Total	$9,056	$7,918	$7,501

In accordance with plans announced in October 2001, we have been divesting DCC's businesses and assets; these sales continued during 2004. As a result of sales and the continuing collection of payments, DCC's total portfolio assets were reduced to approximately $830 at December 31, 2004. While we are continuing to pursue the sale of many of the remaining DCC assets, we expect to retain certain assets for varying periods of time because tax attributes and/or market conditions make disposal uneconomical at this time. As of December 31, 2004, our expectation was that we would retain approximately $405 of the $830 of DCC assets held at that date; however, changes in market conditions may result in a change in our expectation. DCC's retained liabilities include certain asset-specific financing and general obligations that are uneconomical to pay off in advance of their scheduled maturities. We expect that the cash flow generated from DCC assets, including proceeds from asset sales, will be sufficient to service DCC's debt.

Management evaluates the operating segments and geographic regions as if DCC were accounted for on the equity method of accounting rather than on the fully consolidated basis used for external reporting. This is done because DCC is not homogeneous with our manufacturing operations, its financing activities do not support the sales of our other operating segments and its financial and performance measures are inconsistent with those of our other operating segments. Moreover, the financial covenants contained in Dana's long-term bank facility are measured with DCC accounted for on an equity basis.

Information used to evaluate our operating segments—the SBUs and DCC—and our geographic regions is as follows:

	External Sales	Inter Segment Sales	EBIT	Operating PAT	Net Profit (Loss)	Net Assets	Capital Spend	Depreciation/ Amortization
2004								
ASG	$6,658	$187	$ 340	$ 238	$ 106	$3,100	$213	$239
HVTSG	2,322	35	173	106	48	676	57	49
DCC				29	29	350		
Other	76	7	(228)	(163)	27	41	6	4
Total continuing operations	9,056	229	285	210	210	4,167	276	292
Discontinued operations			84	52	52			
Total operations	9,056	229	369	262	262	4,167	276	292
Unusual items excluded from performance measures			(292)	(180)	(180)			
Consolidated	$9,056	$229	$ 77	$ 82	$ 82	$4,167	$276	$292
North America	$6,010	$109	$ 196	$ 123	$ 15	$2,230	$159	$177
Europe	1,775	127	141	105	72	1,224	67	66
South America	626	212	97	59	48	384	33	29
Asia Pacific	645	28	39	25	11	198	16	19
DCC				29	29	350		
Other			(188)	(131)	35	(219)	1	1
Total continuing operations	9,056	476	285	210	210	4,167	276	292
Discontinued operations			84	52	52			
Total operations	9,056	476	369	262	262	4,167	276	292
Unusual items excluded from performance measures			(292)	(180)	(180)			
Consolidated	$9,056	$476	$ 77	$ 82	$ 82	$4,167	$276	$292

(continued)

	External Sales	Inter Segment Sales	EBIT	Operating PAT	Net Profit (Loss)	Net Assets	Capital Spend	Depreciation/ Amortization
2003								
ASG	$5,927	$149	$ 339	$ 242	$ 111	$3,027	$196	$229
HVTSG	1,924	75	130	79	27	610	39	51
DCC				21	21	291		
Other	67	6	(221)	(211)	(28)	13	16	5
Total continuing operations	7,918	230	248	131	131	3,941	251	285
Discontinued operations			90	52	52			
Total operations	7,918	230	338	183	183	3,941	251	285
Unusual items excluded from performance measures			(1)	39	39			
Consolidated	$7,918	$230	$ 337	$ 222	$ 222	$3,941	$251	$285
North America	$5,473	$ 88	$ 245	$ 150	$ 30	$1,478	$150	$179
Europe	1,455	81	113	88	55	1,021	54	60
South America	441	165	70	43	33	222	17	27
Asia Pacific	549	3	47	30	15	158	29	17
DCC				21	21	291		
Other			(227)	(201)	(23)	771	1	2
Total continuing operations	7,918	337	248	131	131	3,941	251	285
Discontinued operations			90	52	52			
Total operations	7,918	337	338	183	183	3,941	251	285
Unusual items excluded from performance measures			(1)	39	39			
Consolidated	$7,918	$337	$ 337	$ 222	$ 222	$3,941	$251	$285
2002								
ASG	$5,645	$127	$ 315	$ 230	$ 99	$2,794	$178	$239
HVTSG	1,797	92	102	63	14	629	23	53
DCC				26	26	271		
Other	59	638	(198)	(236)	(56)	(43)	2	4
Total continuing operations	7,501	857	219	83	83	3,651	203	296
Discontinued operations			157	88	88			
Total operations	7,501	857	376	171	171	3,651	203	296
Unusual items excluded from performance measures			(246)	(133)	(133)			
Change in accounting				(220)	(220)			
Consolidated	$7,501	$857	$ 130	$(182)	$(182)	$3,651	$203	$296
North America	$5,516	$ 96	$ 289	$ 181	$ 56	$2,189	$135	$192
Europe	1,233	68	60	57	28	984	28	57
South America	361	155	52	32	24	252	12	34
Asia Pacific	391	2	19	13	1	151	27	12
DCC				26	26	271		
Other			(201)	(226)	(52)	(196)	1	1
Total continuing operations	7,501	321	219	83	83	3,651	203	296
Discontinued operations			157	88	88			
Total operations	7,501	321	376	171	171	3,651	203	296
Unusual items excluded from performance measures			(246)	(133)	(133)			
Change in accounting				(220)	(220)			
Consolidated	$7,501	$321	$ 130	$(182)	$(182)	$3,651	$203	$296

Operating profit after tax (PAT) is the key internal measure of performance used by management, including our chief operating decision maker, as a measure of segment profitability. With the exception of DCC, operating PAT represents earnings before interest and taxes (EBIT), tax effected at 39% (our estimated long-term effective rate), plus equity in earnings of affiliates. Net profit (loss), which is operating PAT less allocated corporate expenses and net interest expense, provides a secondary measure of profitability for our segments that is more comparable to that of a free-standing entity. The allocation is based on segment sales because it is readily calculable, easily understood and, we believe, provides a reasonable distribution of the various components of our corporate expenses among our diverse business units. Because the accounting guidance does not permit the allocation of corporate expenses to discontinued operations and we have elected not to allocate interest expense to discontinued operations, we have included the corporate expenses and interest expense previously allocated to AAG in Other in the segment tables. These amounts totaled $38, $43, and $36 in 2004, 2003 and 2002, respectively. We believe this avoids distorting the net profit (loss) previously reported for the remaining SBUs and presents amounts that are indicative of the reduced level of corporate expenses and interest expense anticipated following the sale of our automotive aftermarket business.

The Other category includes businesses unrelated to the segments, trailing liabilities for closed plants and corporate administrative functions. For purposes of presenting operating PAT, Other also includes interest expense net of interest income, elimination of inter-segment income and adjustments to reflect the actual effective tax rate. In the net profit (loss) column, Other includes the net profit or loss of businesses not assigned to the segments and certain divested businesses (but not discontinued operations), minority interest in earnings and the tax differential.

The following table reconciles the EBIT amount reported for our segments, excluding DCC, to our consolidated income (loss) before income taxes as presented in the consolidated statement of income.

	2004	2003	2002
EBIT of continuing operations	$ 285	$ 248	$ 219
Restructuring and unusual items—total operations	(292)	(1)	(246)
Restructuring and unusual items—discontinued operations	69	9	81
Interest expense, excluding DCC	(172)	(160)	(175)
Interest income, excluding DCC	12	13	12
DCC pre-tax income	(38)	(28)	(5)
Income (loss) before income taxes	$(136)	$ 81	$(114)

Restructuring and unusual items consist of the gains on sales of businesses discussed in Note 20 and the restructuring and other unusual charges discussed in Notes 21 and 23.

	2004		2003		2002	
	EBIT	OPAT	EBIT	OPAT	EBIT	OPAT
Sale of automotive aftermarket	$ (71)	$ (65)	$—	$—	$ —	$ —
Gain on DCC asset sales		27		40		39
Expenses related to DCC asset sales	(8)	(5)	(7)	(5)	(11)	(7)
Repurchase of notes	(157)	(96)	15	9		
Realignment and related charges	(76)	(54)			(243)	(163)
Other divestitures and asset sales	20	13	(9)	(5)	8	(2)
Unusual items excluded from performance measures	$(292)	$(180)	$ (1)	$39	$(246)	$(133)

Unusual items excluded from performance measures in 2002 presented in the segment table and the EBIT reconciliation table includes charges related to our restructuring efforts and gains and losses on divestitures.

The gains and losses recorded by DCC are not presented as unusual items excluded from performance measures in the preceding EBIT reconciliation table since we do not include DCC's results in EBIT for segment reporting. However, such pre-tax amounts are included within DCC's pre-tax income in the table.

Expenses incurred in connection with our restructuring activities are included in the respective SBUs' 2003 operating results, as are credits to earnings resulting from the periodic adjustments of our restructuring accruals to reflect changes in our estimates of the total cost remaining on uncompleted restructuring projects and gains and losses realized on the sale of assets related to restructuring. These expenses and credits for 2003 are summarized by SBU in the following table. They are included in Operating PAT and Net Profit (Loss) after applying a 39% tax effect.

	Year Ended December 31, 2004		
	Restructuring Provisions	Adjustments of Accruals	Restructuring Disposition Gain (Loss)
ASG	$17	$(16)	$—
HVTSG	1	—	—
	$18	$(16)	$—

	Year Ended December 31, 2003		
	Restructuring Provisions	Adjustments of Accruals	Restructuring Disposition Gain (Loss)
ASG	$19	$(10)	$(2)
HVTSG	7	(17)	(2)
Other	3	—	—
	$29	$(27)	$(4)

Equity earnings included in the operating PAT and net profit reported in 2004, 2003 and 2002 were $29, $34, and $38 for ASG and $6, $(2) and $(6) for Other. Equity earnings included for HVTSG were not material. The related equity investments totaled $614, $564 and $473 for ASG, $32, $2, and $2 for HVTSG and $45, $20 and $23 for Other in 2004, 2003 and 2002.

Net assets at the SBU and regional levels are intended to correlate with invested capital. The amount includes accounts receivable, inventories (on a first-in, first-out basis), prepaid expenses (excluding taxes), goodwill, investments in affiliates, net property, plant and equipment, accounts payable and certain accrued liabilities, but excludes assets and liabilities of discontinued operations.

Net assets differ from consolidated total assets as follows:

	2004	2003	2002
Net assets	$4,167	$3,941	$3,651
Accounts payable and other current liabilities	2,171	1,838	1,609
DCC's assets in excess of equity	785	1,210	1,493
Other current and long-term assets	1,924	1,374	2,623
Assets of discontinued operations	—	1,254	177
Consolidated total assets	$9,047	$9,617	$9,553

Although accounting for discontinued operations does not result in the reclassification of prior balance sheets, our segment reporting excludes the assets of our discontinued operations for all periods presented based on the treatment of these items for internal reporting purposes.

The differences between operating capital spend and depreciation shown by SBU and region and purchases of property, plant and equipment and depreciation shown on the cash flow statement result from the exclusion from the segment table of the amounts related to discontinued operations and our method of measuring DCC for operating purposes. DCC's capital spend and depreciation are not included in the operating measures. DCC purchased equipment for lease to our manufacturing operations through 2002 and continues to lease that equipment to the SBUs. These operating leases have been included in the consolidated statements as purchases of assets and the assets are being depreciated over their useful lives.

Sales by region are based upon location of the entity recording the sale. Sales from the U.S. amounted to $5,145 in 2004, $4,741 in 2003 and $4,907 in 2002. No other country's sales exceeded 10% of total sales. U.S. long-lived assets were $991 in 2004, $1,078 in 2003 and $1,304 in 2002. No other country's long-lived assets exceeded 10% of total long-lived assets.

Export sales from the U.S. to customers outside the U.S. amounted to $416 in 2004, $397 in 2003 and $223 in 2002. Total export sales (including sales to our non-U.S. subsidiaries which are eliminated for financial statement presentation) were $646 in 2004, $587 in 2003 and $392 in 2002.

Worldwide sales to Ford Motor Company and subsidiaries amounted to $2,298 in 2004, $2,098 in 2003 and $1,953 in 2002, which represented 25%, 27% and 26% of our consolidated sales. Worldwide sales to General Motors and subsidiaries amounted to $975 in 2004, which represented 11% of our consolidated sales. Sales to DaimlerChrysler AG and subsidiaries were $823 in 2003 and $1,017 in 2002, representing 10% and 14% of our consolidated sales. Sales to Ford were primarily from our ASG segment, while sales to DaimlerChrysler were primarily from the ASG and HVTSG segments. Sales to DaimlerChrysler AG in 2004 and to General Motors prior to 2004 did not exceed 10% of our consolidated sales; no other customer accounted for more than 10% of our consolidated sales in any of the years reported.

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SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

15. Segment Information

The Company has three reportable segments: Prescription Pharmaceuticals, Consumer Health Care and Animal Health. The segment sales and profit data that follow are consistent with the Company's current management reporting structure. The Prescription Pharmaceuticals segment discovers, develops, manufactures and markets human pharmaceutical products. The Consumer Health Care segment develops, manufactures and markets OTC, foot care and sun care products. The Animal Health segment discovers, develops, manufactures and markets animal health products.

Net Sales by Segment

	2004	2003	2002
Prescription Pharmaceuticals	$6,417	$6,611	$ 8,745
Consumer Health Care	1,085	1,026	758
Animal Health	770	697	677
Consolidated net sales	$8,272	$8,334	$10,180

Profit by Segment

	2004	2003	2002
Prescription Pharmaceuticals	$ 13	$ 513	$2,548
Consumer Health Care	234	199	169
Animal Health	88	86	93
Corporate and other	(503)	(844)	(247)
Consolidated (loss)/profit before tax	$(168)	$ (46)	$ 2,563

Corporate and other includes interest income and expense, foreign exchange gains and losses, headquarters expenses, special charges and other miscellaneous items. The accounting policies used for segment reporting are the same as those described in Note 1 "Summary of Significant Accounting Policies."

In 2004, Corporate and other includes Special charges of $153, including $119 of employee termination costs, as well as $27 of asset impairment charges and $7 of closure costs primarily related to the exit from a small European research-and-development facility (see Note 2 "Special Charges" for additional information). It is estimated that the charges relate to the reportable segments as follows: Prescription Pharmaceuticals–$135, Consumer Health Care–$3, Animal Health–$2 and Corporate and other–$13.

In 2003, Corporate and other includes Special charges of $599, including $179 of employee termination costs, a $350 provision to increase litigation reserves, and $70 of asset impairment charges (see Note 2 "Special Charges" for additional information). It is estimated that the charges relate to the reportable segments as follows: Prescription Pharmaceuticals–$515, Consumer Health Care–$25, Animal Health–$4 and Corporate and other–$55.

Net Sales by Major Product

	2004	2003	2002
Prescription Pharmaceuticals	$6,417	$6,611	$ 8,745
REMICADE	746	540	337
CLARINEX/AERIUS	692	694	598
NASONEX	594	500	523
PEG-INTRON	563	802	1,015
TEMODAR	459	324	278
INTEGRILIN	325	306	304
CLARITIN Rx	321	328	1,802
INTRON A	318	409	533
REBETOL	287	639	1,222
SUBUTEX	185	144	103
ELOCON	168	154	165
CAELYX	150	111	71
Other Pharmaceutical	1,609	1,660	1,794
Consumer Health Care	1,085	1,026	758
OTC (includes OTC CLARITIN sales in 2004 and 2003 of $419 and $432, respectively)	578	588	275
Foot Care	331	292	290
Sun Care	176	146	193
Animal Health	770	697	677
Consolidated net sales	$8,272	$8,334	$10,180

Net Sales by Geographic Area

	2004	2003	2002
United States	$3,219	$3,559	$ 5,761
Europe and Canada	3,595	3,410	2,923
Latin America	782	716	740
Pacific Area and Asia	676	649	756
Consolidated net sales	$8,272	$8,334	$10,180

The Company has subsidiaries in more than 50 countries outside the U.S.. No single foreign country, except for France, Italy and Japan, accounted for 5 percent or more of consolidated net sales during the past three years. Net sales are presented in the geographic area in which the Company's customers are located.

	2004		2003		2002	
Total International Sales	$5,053	61%	$4,775	57%	$4,419	43%
France	729	9%	691	8%	613	6%
Italy	443	5%	436	5%	339	3%
Japan	385	5%	414	5%	524	5%

Net Sales by Customer

	2004		2003		2002	
McKesson Corporation	$868	10%	$667	8%	$2,092	21%
AmeriSourceBergen Corporation	589	7%	771	9%	1,101	11%

No single customer, except for McKesson Corporation and AmeriSourceBergen Corporation, two major pharmaceutical and health care products distributors, accounted for 10 percent or more of consolidated net sales during the past three years.

Long-Lived Assets by Geographic Location

	2004	2003	2002
United States	$2,447	$2,507	$2,477
Ireland	449	444	430
Singapore	884	828	668
Puerto Rico	298	317	300
Other	768	726	613
Total	$4,846	$4,822	$4,488

Long-lived assets shown by geographic location are primarily property.

Sales of products comprising 10 percent or more of the Company's U.S. or international sales for the year ended December 31, 2004, were as follows:

	U.S.	International
REMICADE	$ —	$746
CLARINEX	420	272
OTC CLARITIN	403	16
NASONEX	353	242

Schering-Plough net sales do not include sales of VYTORIN and ZETIA that are marketed in partnership with Merck, as the Company accounts for this joint venture under the equity method of accounting. See Note 3 "Equity Income From Cholesterol Joint Venture."

The Company does not disaggregate assets on a segment basis for internal management reporting and, therefore, such information is not presented.

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VERIZON COMMUNICATIONS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Description of Business

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Verizon's domestic wireline telecommunications business provides local telephone services, including broadband, in 29 states and Washington, D.C. and nationwide long-distance and other communications products and services. The domestic wireline consumer business generally provides local, broadband and long distance services to customers. Our domestic wireline business also provides a variety of services to other telecommunications carriers as well as large and small businesses. Verizon's domestic wireless business provides wireless voice and data products and services across the United States using one of the most extensive wireless networks. Information Services operates directory publishing businesses and provides electronic commerce services. Verizon's international presence includes wireline and wireless communications operations and investments, primarily in the Americas and Europe. We have four reportable segments, which we operate and manage as strategic business units: Domestic Telecom, Domestic Wireless, Information Services and International. For further information concerning our business segments, see Note 18.

Note 8 (In Part): Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	Domestic Telecom	Information Services	International	Total
Balance at December 31, 2002	$314	$112	$446	$872
Goodwill reclassifications and other	—	(35)	(2)	(37)
Balance at December 31, 2003	314	77	444	835
Goodwill reclassifications and other	1	—	1	2
Balance at December 31, 2004	$315	$ 77	$445	$837

Note 18. Segment Information

Reportable Segments

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment income. This segment income excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of unit performance. These are mostly contained in Information Services and International since they actively manage investment portfolios.

Our segments and their principal activities consist of the following:

Domestic Telecom

Domestic wireline communications services, principally representing our telephone operations that provide local telephone services in 29 states and Washington, D.C. These services include voice and data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones. This segment also provides long distance services, customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services and inventory management services.

Domestic Wireless

Domestic wireless products and services include wireless voice and data services and equipment sales across the United States.

Information Services

Directory publishing business, including print directories, SuperPages.com online search services, as well as website creation and other electronic commerce services. This segment has operations principally in the United States.

International

International wireline and wireless communications operations and investments primarily in the Americas, as well as investments in Europe.

The following table provides operating financial information for our four reportable segments:

2004	Domestic Telecom	Domestic Wireless	Information Services	International	Total Segments
External revenues	$37,689	$27,586	$3,615	$ 1,982	$ 70,872
Intersegment revenues	862	76	—	32	970
Total operating revenues	38,551	27,662	3,615	2,014	71,842
Cost of services and sales	15,019	7,747	546	626	23,938
Selling, general & administrative expense	8,781	9,591	1,331	471	20,174
Depreciation & amortization expense	8,939	4,486	87	324	13,836
Total operating expenses	32,739	21,824	1,964	1,421	57,948
Operating income	5,812	5,838	1,651	593	13,894
Equity in earnings of unconsolidated businesses	—	45	—	1,031	1,076
Income from other unconsolidated businesses	—	—	—	31	31
Other income and (expense), net	103	11	15	35	164
Interest expense	(1,638)	(661)	(33)	(85)	(2,417)
Minority interest	—	(2,323)	(6)	(80)	(2,409)
Provision for income taxes	(1,530)	(1,265)	(629)	(300)	(3,724)
Segment income	$ 2,747	$ 1,645	$ 998	$ 1,225	$ 6,615
Assets	$78,824	$68,027	$1,680	$14,885	$163,416
Investments in unconsolidated businesses	3	148	4	4,914	5,069
Plant, property and equipment, net	50,608	20,516	179	2,391	73,694
Capital expenditures	7,118	5,633	87	382	13,220
2003					
External revenues	$38,828	$22,436	$3,830	$ 1,921	$ 67,015
Intersegment revenues	774	53	—	28	855
Total operating revenues	39,602	22,489	3,830	1,949	67,870
Cost of services and sales	14,708	6,460	559	574	22,301
Selling, general & administrative expense	8,517	8,057	1,400	691	18,665
Depreciation & amortization expense	9,217	3,888	79	346	13,530
Sales of businesses, net	—	—	(141)	—	(141)
Total operating expenses	32,442	18,405	1,897	1,611	54,355
Operating income	7,160	4,084	1,933	338	13,515
Equity in earnings (loss) of unconsolidated businesses	—	15	(1)	1,091	1,105
Income (loss) from other unconsolidated businesses	(4)	—	—	169	165
Other income and (expense), net	47	12	6	32	97
Interest expense	(1,682)	(626)	(38)	(160)	(2,506)
Minority interest	—	(1,554)	(8)	(20)	(1,582)
Provision for income taxes	(2,186)	(848)	(735)	(58)	(3,827)
Segment income	$ 3,335	$ 1,083	$1,157	$ 1,392	$ 6,967
Assets	$82,087	$65,166	$1,726	$11,872	$160,851
Investments in unconsolidated businesses	64	288	4	4,555	4,911
Plant, property and equipment, net	53,378	18,998	190	2,164	74,730
Capital expenditures	6,820	4,590	74	358	11,842

(continued)

2002	Domestic Telecom	Domestic Wireless	Information Services	International	Total Segments
External revenues	$40,260	$19,424	$4,039	$ 2,191	$ 65,914
Intersegment revenues	579	49	—	28	656
Total operating revenues	40,839	19,473	4,039	2,219	66,570
Cost of services and sales	13,390	5,456	643	586	20,075
Selling, general & administrative expense	9,048	7,084	1,343	610	18,085
Depreciation & amortization expense	9,456	3,293	66	376	13,191
Total operating expenses	31,894	15,833	2,052	1,572	51,351
Operating income	8,945	3,640	1,987	647	15,219
Equity in earnings of unconsolidated businesses	—	13	1	644	658
Income from other unconsolidated businesses	—	—	—	218	218
Other income and (expense), net	84	28	10	61	183
Interest expense	(1,745)	(626)	(35)	(238)	(2,644)
Minority interest	—	(1,349)	(16)	(102)	(1,467)
Provision for income taxes	(2,920)	(740)	(736)	(78)	(4,474)
Segment income	$ 4,364	$ 966	$1,211	$ 1,152	$ 7,693
Assets	$82,257	$63,470	$3,591	$10,650	$159,968
Investments in unconsolidated businesses	70	289	9	3,603	3,971
Plant, property and equipment, net	52,582	17,690	237	2,432	72,941
Capital expenditures	8,004	4,414	158	421	12,997

Reconciliation to Consolidated Financial Information

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows:

	2004	2003	2002
Operating revenues			
Total reportable segments	$ 71,842	$ 67,870	$ 66,570
Non-strategic access line sales	—	—	623
Corporate, eliminations and other	(559)	(402)	(137)
Consolidated operating revenues—reported	$ 71,283	$ 67,468	$ 67,056
Operating expenses			
Total reportable segments	$ 57,948	$ 54,355	$ 51,351
Non-strategic access line sales	—	—	241
Sales of businesses and investments, net	100	300	(2,747)
Transition costs	—	—	510
Severance, pension and benefit charges	815	5,523	1,949
Investment-related charges	—	—	732
NorthPoint settlement	—	—	175
MCI exposure, lease impairment and other special items	(91)	496	593
Corporate, eliminations and other	(606)	(613)	(625)
Consolidated operating expenses—reported	$ 58,166	$ 60,061	$ 52,179
Net income			
Segment income—reportable segments	$ 6,615	$ 6,967	$ 7,693
Sales of businesses and investments, net	1,059	44	1,895
Transition costs	—	—	(288)
Severance, pension and benefit charges	(499)	(3,399)	(1,264)
Investment-related charges	—	—	(5,652)
NorthPoint settlement	—	—	(114)
MCI exposure, lease impairment and other special items	2	(419)	(469)
Iusacell charge	—	(931)	—
Tax benefits	234	—	2,104
Income (loss) on discontinued operations	54	46	(13)
Cumulative effect of accounting change	—	503	(496)
Corporate and other	366	266	683
Consolidated net income—reported	$ 7,831	$ 3,077	$ 4,079
Assets			
Total reportable segments	$163,416	$160,851	$159,968
Reconciling items	2,542	5,117	7,500
Consolidated assets	$165,958	$165,968	$167,468

Results of operations for Domestic Telecom exclude the effects of the non-strategic access lines sold in 2002. In addition, the transfer of Global Solutions Inc. from International to Domestic Telecom effective January 1, 2003 is reflected in this financial information as if it had occurred for all periods presented. Financial information for International excludes the effects of Iusacell. Financial information for Information Services excludes the effects of Verizon Information Services Canada.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature.

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

Geographic Areas

Our foreign investments are located principally in the Americas and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

	2004	2003	2002
Domestic			
Operating revenues	$69,173	$65,303	$64,576
Long-lived assets	72,668	74,346	72,726
Foreign			
Operating revenues	2,110	2,165	2,480
Long-lived assets	7,311	6,745	6,009
Consolidated			
Operating revenues	71,283	67,468	67,056
Long-lived assets	79,979	81,091	78,735

NATURAL BUSINESS YEAR

1.29 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.

1.30 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.

1.31 For 2004, 159 survey companies were on a 52–53 week fiscal year. During 2004, 5 survey companies changed the date of their fiscal year end. Examples of fiscal year end changes and of fiscal year definitions follow.

1.32

TABLE 1-4: MONTH OF FISCAL YEAR END

	2004	2003	2002	2001
January	30	30	31	32
February	8	9	9	10
March	17	16	16	16
April	9	8	7	8
May	18	18	21	18
June	41	49	49	48
July	11	8	8	8
August	11	14	14	15
September	44	42	42	38
October	19	17	16	19
November	12	13	13	15
Subtotal	**220**	**224**	**226**	**227**
December	380	376	374	373
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

1.33

DIMON INCORPORATED

Statements of Consolidated Income and Comprehensive Income

	Nine Months Ended March 31, 2004	Years Ended June 30, 2003	2002

Consolidated Balance Sheet

	March 31, 2004	June 30, 2003

Statement of Consolidated Cash Flows

	Nine Months Ended March 31, 2004	Years Ended June 30, 2003	2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Change in Fiscal Year

On June 23, 2003, our Board of Directors adopted a change in fiscal year end from June 30 to March 31. The primary purpose of the change is to better match the financial reporting cycle with natural global crop cycles for leaf tobacco. As a result of this change, the Company has a nine month transition period ended March 31, 2004. The Company's new fiscal year 2005 began on April 1, 2004. Condensed consolidated comparative financial data for the nine months ended March 31, 2004 and 2003, are summarized below:

(In thousands)	Nine Months Ended March 31, 2004	Nine Months Ended March 31, 2003 (unaudited)
Sales and other operating revenues	$835,291	$875,614
Gross profit	103,223	138,461
Selling, administrative and general expenses	90,327	77,802
Restructuring and asset impairment charges	29,480	—
Interest expense	32,167	34,268
Interest income	6,397	2,455
Derivative financial instruments (income) expense	(6,522)	10,371
Income taxes (benefit)	(652)	4,249
Equity in net income (loss) of investee companies	(480)	(171)
Minority interests (income)	(2,792)	55
Net income (loss)	$ (32,868)	$ 14,000
Earnings (loss) per share:		
Basic	$ (0.73)	$ 0.31
Diluted	$ (0.73)	$ 0.31

1.34

UNIVERSAL CORPORATION

Consolidated Statements of Income

	Nine Months Ended March 31, 2004	Fiscal Years Ended June 30, 2003	2002

Consolidated Balance Sheets

	March 31, 2004	June 30, 2003

Consolidated Statements of Cash Flows

	Nine Months Ended March 31, 2004	Fiscal Years Ended June 30, 2003	2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidation (In Part)

Prior to March 31, 2004, the fiscal years of foreign subsidiaries generally ended three months before the Company's year end to facilitate timely reporting. The financial impact of intervening events materially affecting the consolidated financial position or results of operations were disclosed or recognized in the financial statements. The reporting lag for foreign subsidiaries was eliminated in connection with the Company's change in fiscal year end. See Note 2 for additional information on the change in year end and elimination of the foreign reporting lag.

Note 2. Change in Fiscal Year End and Elimination of Reporting Lag for Foreign Subsidiaries

The Company changed its fiscal year end from June 30 to March 31, effective March 31, 2004. In addition to better matching the fiscal reporting period with the crop and operating cycles of the Company's largest operations, the change allowed the Company to eliminate the three-month reporting lag previously used for most of its foreign subsidiaries. As of March 31, 2004, all of the Company's consolidated subsidiaries have the same fiscal reporting period.

The consolidated statements of income, cash flows, and changes in shareholders' equity reflect audited results for the nine-month transition year ended March 31, 2004 and the fiscal years ended June 30, 2003 and 2002. The consolidated balance sheets reflect the audited financial position of the Company at March 31, 2004, and June 30, 2003. Net income of foreign subsidiaries for the three-month period ended March 31, 2004, representing the elimination of the reporting lag, is reflected as an addition to retained earnings in the consolidated statement of changes in shareholders' equity. In addition, the net change in cash and cash equivalents of foreign subsidiaries for this three-month period is reported on a separate line in the consolidated statement of cash flows. Note 14 provides unaudited summary financial information recast to show consolidated historical results without the reporting lag for foreign subsidiaries.

The Company's U.S. tobacco operations recognize fixed factory overhead expense in the periods in which tobacco is processed. Since processing does not normally occur during the period between April 1 and June 30, the projected overhead expense for that period has historically been allocated to the preceding three quarters of each fiscal year, based on volumes processed. Because of the change in fiscal year end to March 31, the U.S. factory overhead expense for the period April 1 through June 30, 2004, will be reported in fiscal year 2005 results, and will be allocated to the subsequent quarters of that fiscal year. As a result, operating income for the nine-month transition year ended March 31, 2004, reflects favorable comparisons to prior fiscal years. Had the 2004 transition year included the estimated fixed factory overhead expense for April 1 through June 30, 2004, tobacco segment operating income would have been approximately $11 million lower.

Definition of Fiscal Year

1.35

CONAGRA FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year

The fiscal year of ConAgra Foods, Inc. ("ConAgra Foods" or the "company") ends the last Sunday in May. The fiscal years for the consolidated financial statements presented consist of a 53-week period for fiscal year 2004 and 52-week periods for fiscal years 2003 and 2002.

1.36

THE PEPSI BOTTLING GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year

Our U.S. and Canadian operations report using a fiscal year that consists of fifty-two weeks, ending on the last Saturday in December. Every five or six years a fifty-third week is added. Fiscal years 2004, 2003 and 2002 each consisted of fifty-two weeks. In 2005, our fiscal year will consist of fifty-three weeks (the additional week is added to the fourth quarter). Our remaining countries report using a calendar-year basis. Accordingly, we recognize our quarterly business results as outlined below:

Quarter	U.S. & Canada	Mexico & Europe
First Quarter	12 weeks	January and February
Second Quarter	12 weeks	March, April and May
Third Quarter	12 weeks	June, July and August
Fourth Quarter	16 weeks	September, October, November and December

1.37

SEARS, ROEBUCK AND CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year

The Company's fiscal year ends on the Saturday nearest December 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year	Ended	Weeks
2004	January 1, 2005	52
2003	January 3, 2004	53
2002	December 28, 2002	52

COMPARATIVE FINANCIAL STATEMENTS

1.38 *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*.

1.39 In their annual reports, the survey companies usually present an income statement as the first financial statement. For 2004, 327 survey companies presented an income statement first followed by a balance sheet; 220 survey companies presented a balance sheet first followed by an income statement; 18 survey companies presented an income statement first followed by a statement of cash flows; and 19 survey companies presented an income statement first combined with a statement of comprehensive income or followed by a separate statement of comprehensive income.

1.40 Prior to 1986, the financial statements, with rare exception, were presented on consecutive pages. Beginning in 1986 certain survey companies did not present their financial statements on consecutive pages but interspersed the Management's Discussion and Analysis of Financial Condition and Results of Operations among the financial statements by having comments discussing the content of a financial statement follow the presentation of a financial statement. Such interspersed material was not covered by an auditor's report and was not presented in lieu of notes. For 2004, 3 survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

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

1.42

TABLE 1-5: ROUNDING OF AMOUNTS

	2004	2003	2002	2001
To nearest dollar	12	21	21	20
To nearest thousands dollars:				
Omitting 000	322	322	336	334
Presenting 000	3	5	4	4
To nearest million dollars	263	252	239	242
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

1.43 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.

1.44 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.

1.45

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	2004	2003	2002	2001
General reference only	514	509	514	475
General and direct references	86	91	85	124
Direct reference only	—	—	1	1
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

1.46 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 2004, 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.

1.47 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.

1.48

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	2004	2003	2002	2001
Revenue recognition	586	587	584	574
Consolidation policy	572	572	576	587
Use of estimates	570	571	576	577
Property	565	562	556	543
Stock-based compensation	554	567	483	335
Cash equivalents	553	551	537	543
Depreciation methods	547	552	567	584
Impairment	526	503	540	533
Amortization of intangibles	515	512	509	495
Inventory pricing	514	518	522	523
Financial instruments	496	505	487	450
Interperiod tax allocation	477	464	444	418
Translation of foreign currency	436	441	420	407
Earnings per share calculation	370	402	386	383
Nature of operations	295	325	361	329
Advertising costs	273	271	250	227
Research and development costs	217	213	206	186
Credit risk concentrations	184	189	178	167
Fiscal years	166	176	181	175
Employee benefits	149	172	167	133
Environmental costs	134	138	133	131
Capitalization of interest	85	92	89	87

1.49

IDT CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

IDT Corporation ("IDT" or the "Company") is a multinational telecommunications and entertainment company. IDT Telecom is the Company's largest division, focused on marketing and selling prepaid and rechargeable calling cards, wholesale carrier services and local and long consumer distance phone services. IDT Entertainment is the Company's second largest division, comprised of complementary operations and investments that enables it to acquire, develop, finance and produce animated entertainment programming and to distribute filmed entertainment content to the mass market. IDT's Voice over IP segment consists mostly of Net2Phone, Inc., a provider of VoIP telephony products and services and of cable and other broadband telephony services. The Company's IDT Capital (formerly known as Menlo Park and, before that, IDT Media) segment consists primarily of IDT's brochure distribution and radio operations. The Company's announced the reorganization of the IDT Solutions segment, which consists of Winstar Holdings, LLC. Once the reorganization is complete, IDT Solutions will no longer provide retail switched communication services to commercial customer. IDT Solutions currently provides communications services only to select governmental customers in 14 markets.

Basis of Consolidation and Accounting for Investments

The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The consolidated financial statements include IDT's controlled subsidiaries that are not considered variable interest entities. The Company has not identified any variable interests in which the Company is the primary beneficiary. Investments in businesses that IDT does not control, but has the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which IDT does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method. Equity and cost method investments are included in investments in the accompanying consolidated balance sheets. All intercompany transactions between the consolidated subsidiaries are eliminated. The Company periodically evaluates its cost method investments for impairment due to declines considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company determines that a decline in cost value is other than temporary, then a charge to earnings is recorded in investment and other income (expense), net in the accompanying consolidated statements of operations for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

The effect of any changes in the Company's ownership interests resulting from the issuance of equity by one of its consolidated subsidiaries is included in the consolidated statements of operations in gain on sale of subsidiary stock.

Marketable Securities

The Company has investments in marketable securities that are considered "available-for-sale" under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. The fair values of the Company's investments in marketable securities are determined based on market quotations. The Company periodically evaluates its investments in marketable securities for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations, If the Company determines that a decline in market value is other than temporary, then a charge to earnings is recorded in investment and other income (expense), net in the accompanying consolidated statements of operations for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition

Traditional voice and Voice over IP (VoIP) telephony services sold by IDT Telecom and Net2Phone are generally recognized as revenue when services are provided, primarily on a per usage basis and/or a per monthly fee. Revenues derived from sales of calling cards is deferred upon sale of the cards. These deferred revenues are recognized when call usage of the cards occur, administrative fees are imposed, or no further obligations exist with respect to a calling card. Revenues from high-speed Internet and data services and local and long-distance voice services at IDT Solutions are recognized when services are provided. Net2Phone's per subscriber activation fees which are invoiced based on contracted service commitment levels, are deferred when invoiced and recognized as revenue over the remaining life of the service agreement.

Revenues generated by IDT Entertainment relating to proprietary programs is recognized in accordance with Statement of Position ("SOP") 00-02, *Accounting by Producers of Distributors of Films* as programs are exploited in the markets in which the Company has retained ownership rights, typically upon the receipt of statements from the Company's licensees. In the event that a licensee pays the Company a nonrefundable minimum guarantee at the beginning of a license term, the Company will record this amount as revenue when all of the criteria for recognition pursuant to SOP 00-02 are met.

Revenues generated by IDT Entertainment relating to fee-for-hire productions is recognized in accordance with SOP 81-1, *Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts*. Revenues from fixed-price contracts are recognized under the percentage of completion method, measured by actual cost incurred to date versus an estimate of the remaining costs to complete each production. This method is used because management considers estimated costs to complete to be the best available measure of progress on these contracts.

Revenues generated by IDT Entertainment relating to video distribution activities are recognized upon the estimated receipt of the product by the customer.

Cost Recognition

Direct cost of revenues at IDT Telecom and Net2Phone consist primarily of termination costs, toll-free and payphone costs, and network costs—including customer/carrier interconnect charges and leased fiber circuit charges. Direct cost of revenues at IDT Solutions also includes connectivity costs relating to its fixed wireless network backbone and leased property costs relating to its network of buildings, hubs and switches. Direct cost of revenues excludes depreciation and amortization expense.

Direct cost of revenues at IDT Entertainment consist primarily of production labor costs, direct product costs, postage, shipping and royalty expenses. Costs incurred on proprietary programs such as the acquisition of story rights, the development of stories, production labor and allocable overhead are capitalized as film costs. Film costs are stated at the lower of unamortized cost or fair value. Film costs for each proprietary program are amortized based on the proportion that current revenues from that proprietary program bear to an estimate of the total revenues (ultimate revenues) expected to be realized from such program. Costs incurred in connection with fee-for-hire productions are capitalized and subsequently amortized to cost of revenues at the time revenue is recognized. If the costs of a production is expected to exceed the corresponding anticipated revenue stream, then all costs incurred in excess of this revenue stream is expensed to cost of revenues when incurred.

Film libraries generally include the unamortized cost of completed theatrical films and television series, theatrical films and television series in production, and film rights acquired for the home video market. Film libraries are amortized based on the proportion that current revenues from the films bear to an estimate of total revenues anticipated from all markets. Ultimate revenue estimates range from 3 to 15 years, depending on the nature and type of the property. These estimates are revised periodically and losses, if any, are written down in full.

Exploitation costs are charged to selling, general and administrative expense as incurred.

Purchase of Network Capacity

Purchases of network capacity pursuant to Indefeasible Rights of Use ("IRU") agreements are capitalized at cost and amortized over the term of the capacity agreement, which is generally 15 years. Historically, we have not been a provider of network capacity.

Property, Plant and Equipment

Equipment, buildings, and furniture and fixtures are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, which range as follows: equipment–5 to 7 years; buildings–40 years; and furniture and fixtures–5 to 7 years. Leasehold improvements are recorded at cost and are depreciated on a straight line basis over the term of their lease or their estimated useful lives, whichever is shorter.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), the Company periodically reviews the carrying value of its property and equipment and its intangible assets, with finite lives, to test whether current events or circumstances indicate that such carrying value may not be recoverable. If the tests indicate that the carrying value of the asset is greater than the expected undiscounted cash flows to be generated by such asset, then an impairment adjustment needs to be recognized. Such adjustment consists of the amount by which the carrying value of such asset exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such asset using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their carrying value or fair value less costs to sell.

Advertising Expense

The majority of the Company's advertising expense budget is used to support IDT Telecom's consumer phone services business. Most of the advertisements are in print or television media, with expenses recorded as they are incurred. Some of the advertising for the consumer phone services business is also done on a cost-per-acquisition basis, where the Company pays the provider of advertising based on a fixed amount per each customer who becomes a subscriber of its services. In such cases, the expenses are recorded based on the number of customers who were added during the period in question. For the years ended July 31, 2004, 2003 and 2002, included in selling, general and administrative expenses was advertising expense totaling approximately $63.6 million, $36.3 million and $18.8 million, respectively.

Software Development Costs

Costs for the internal development of new software products and for substantial enhancements to existing software products to be sold are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 2004, 2003 and 2002, included in selling, general and administrative expenses are research and development costs totaling approximately $8.2 million, $5.4 million and $9.4 million, respectively.

Capitalized Internal Use Software Costs

The Company capitalizes the cost of internal-use software that has a useful life in excess of one year in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs consist of payments made to third parties and the salaries of employees working on such software development. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized internal use software costs are amortized using the straight-line method over their estimated useful lives, generally consisting of 3 to 7 years. For the years ended July 31, 2004, 2003 and 2002, the Company capitalized $9.6 million, $16.7 million and $6.9 million, respectively, of internal use software costs as computer software. Amortization expense relating to such capitalized software for the years ended July 31, 2004, 2003 and 2002 was $1.7 million, $2.2 million and $1.4 million, respectively.

Repairs and Maintenance

The Company charges the cost of repairs and maintenance, including the cost of replacing minor items not constituting substantial betterment, to selling, general and administrative expenses as these costs are incurred.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value. The Company holds cash and cash equivalents and marketable securities at several major financial institutions, which often exceed FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk.

Goodwill and Other Intangibles

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Effective August 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* and, as required, the Company no longer amortizes goodwill and other indefinite lived intangible assets. These assets are reviewed annually (or more frequently under various conditions) for impairment using a fair value approach. Intangible assets that do not have indefinite lives are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144. Costs associated with obtaining the right to use trademark, licenses and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Acquired licenses and core technology are capitalized and amortized on a straight-line basis over 3 to 5 years. For additional information on the impact of adopting SFAS No. 142, see Note 5.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries denominated in foreign currencies at July 31 are translated to U.S. Dollars at year-end rates of exchange, and their monthly results of operations are translated to U.S. Dollars at the average rates of exchange for that month. Gains or losses resulting from such foreign currency translations are recorded in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the 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 of such change.

Earnings Per Share

The Company computes earnings per share under the provisions of SFAS No. 128, *Earnings per Share*, whereby basic earnings per share is computed by dividing net income (loss) attributable to all classes of common shareholders by the weighted average number of shares of all classes of common stock outstanding during the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options, unvested restricted stock and contingently issuable shares using the treasury stock method, unless the effect of such increase would be anti-dilutive. For the years ended July 31, 2004, 2003, and 2002, the diluted earnings per share amounts equal basic earnings per share because the Company had net losses and the impact of the assumed exercise of stock options, unvested restricted stock and contingently issuable shares would have been anti-dilutive.

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 2004, 2003 and 2002. However, the Company's five largest customers accounted for 12.0%, 14.5% and 14.7% of its consolidated revenues in fiscal 2004, 2003 and 2002, respectively. This concentration of customers increases the Company's risk associated with nonpayment by these customers. Thus, 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 light of the deteriorating credit quality of some of our retail telecom and wholesale carrier customers, however, the Company has imposed stricter credit restrictions on them. 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.

The Company is also subject to risks associated with its international operations, including changes in exchange rates, difficulty in trade accounts receivable collection and longer payment cycles. 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 such trade receivables will not be collected.

Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2004, the carrying value of the Company's trade accounts receivable, other current assets, trade accounts payable, accrued expenses, deferred revenue, capital lease obligations and other current liabilities approximate fair value.

Stock Based Compensation

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended, the Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations ("APB No. 25") in accounting for its stock option plans and, accordingly, compensation cost is recognized for repriced options that are subject to variable accounting treatment and therefore must be marked-to-market each quarter. In addition, compensation cost is recognized for stock options if it relates to non-qualified stock options for which the exercise price was less than the fair market value of the Company's stock as of the date of grant. The compensation cost for these grants is amortized to expense on a straight-line basis over their vesting periods.

The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value based method of accounting provisions of SFAS No. 123 to stock-based employee compensation for the years ended July 31, 2004, 2003 and 2002:

(In thousands, except per share data)	2004	2003	2002
Net loss, as reported	$ (95,711)	$(17,517)	$(303,349)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects and minority interests	7,526	10,847	3,766
Deduct: Total stock-based employee compensation expense determined under the fair value based method of accounting for all awards, net of related tax effects and minority interests	(35,496)	(38,688)	(36,291)
Pro forma net loss	$(123,681)	$(45,358)	$(335,874)
Earnings per share:			
Basic—as reported	$ (1.09)	$ (0.22)	$ (4.04)
Basic—pro forma	$ (1.41)	$ (0.57)	$ (4.47)
Diluted—as reported	$ (1.09)	$ (0.22)	$ (4.04)
Diluted—pro forma	$ (1.41)	$ (0.57)	$ (4.47)

The fair value of stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for vested and non-vested options:

Assumptions	2004	2003	2002
Average risk-free interest rate	2.94%	3.02%	4.22%
Dividend yield	—	—	—
Volatility factor of the expected market price of the Company's Class B common stock	42%	59%	73%
Average life	4 years	5 years	5 years

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. 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 employees' stock options.

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IRON MOUNTAIN INCORPORATED (DEC)

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

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The accompanying financial statements reflect our financial position and results of operations on a consolidated basis. Financial position and results of operations of Iron Mountain Europe Limited ("IME"), our European subsidiary, are consolidated for the appropriate periods based on its fiscal year ended October 31. All significant intercompany account balances have been eliminated or presented to reflect the underlying economics of the transactions.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. On an on-going basis, we evaluate the estimates used, including those related to the allowance for doubtful accounts and credit memos, impairments of tangible and intangible assets, income taxes, purchase accounting related reserves, self-insurance liabilities, incentive compensation liabilities, litigation liabilities and contingencies. We base our estimates on historical experience, actuarial estimates, current conditions and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities and are not readily apparent from other sources. We use these estimates to assist us in the identification and assessment of the accounting treatment necessary with respect to commitments and contingencies. Actual results may differ from these estimates.

c. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash invested in short-term securities which have remaining maturities at the date of purchase of less than 90 days. Cash and cash equivalents are carried at cost, which approximates fair value.

d. Foreign Currency Translation

Local currencies are considered the functional currencies for most of our operations outside the United States. All assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected in the accumulated other comprehensive items component of shareholders' equity. The gain or loss on foreign currency transactions, including those related to (a) U.S. dollar denominated $8^1/_8$% senior notes of our Canadian subsidiary (the "Subsidiary notes"), (b) our $7^1/_4$% GBP Senior Subordinated Notes due 2014 (the "$7^1/_4$% notes"), (c) the borrowings in certain foreign currencies under our revolving credit agreements, and (d) the foreign currency denominated intercompany obligations of our foreign subsidiaries to us, are included in other (income) expense, net, on our consolidated statements of operations. The total of such net gains amounted to $5,043, $30,223 and $8,915 for the years ended December 31, 2002, 2003 and 2004, respectively.

e. Derivative Instruments and Hedging Activities

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that every derivative instrument be recorded in the balance sheet as either an asset or a liability measured at its fair value. Periodically, we acquire derivative instruments that are intended to hedge either cash flows or values which are subject to foreign exchange or other market price risk, and not for trading purposes. We have formally documented our hedging relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking each hedge transaction. Given the recurring nature of our revenues and the long term nature of our asset base, we have the ability and the preference to use long term, fixed interest rate debt to finance our business, thereby preserving our long term returns on invested capital. We target a range 80% to 85% of our debt portfolio to be long term and fixed with respect to interest rates. Occasionally, we will use floating to fixed interest rate swaps as a tool to maintain our targeted level of fixed rate debt. In addition, we will use borrowings in foreign currencies, either obtained in the U.S. or by our foreign subsidiaries, to naturally hedge foreign currency risk associated with our international investments. Sometimes we enter into currency swaps to temporarily hedge an overseas investment, such as a major acquisition, while we arrange permanent financing.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method with the following useful lives:

Buildings	40 to 50 years
Leasehold improvements	8 to 10 years or the life of the lease, whichever is shorter
Racking	5 to 20 years
Warehouse equipment	3 to 9 years
Vehicles	5 to 10 years
Furniture and fixtures	2 to 5 years
Computer hardware and software	3 to 5 years

Property, plant and equipment, at cost, consist of the following:

	2003	2004
Land and buildings	$ 745,838	$ 819,221
Leasehold improvements	144,244	181,452
Racking	598,101	699,104
Warehouse equipment/vehicles	88,127	117,740
Furniture and fixtures	41,996	51,075
Computer hardware and software	260,190	326,613
Construction in progress	72,397	71,634
	$1,950,893	$2,266,839

Minor maintenance costs are expensed as incurred. Major improvements which extend the life, increase the capacity or improve the safety or the efficiency of property owned are capitalized. Major improvements to leased buildings are capitalized as leasehold improvements and depreciated.

We develop various software applications for internal use. Payroll and related costs for employees who are directly associated with, and who devote time to, the development of internal use computer software projects (to the extent of the time spent directly on the project) are capitalized and depreciated over the estimated useful life of the software. Capitalization begins when the design stage of the application has been completed and it is probable that the project will be completed and used to perform the function intended. Depreciation begins when the software is placed in service.

We apply the provisions of Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") which requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. SOP 98-1 also defines which types of costs should be capitalized and which should be expensed. The computer software costs incurred and capitalized are being depreciated over their useful lives or the useful lives of the related assets.

g. Goodwill and Other Intangible Assets

Effective July 1, 2001 and January 1, 2002, we adopted the provisions of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," respectively. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives.

Effective January 1, 2002, we reviewed goodwill for impairment consistent with the guidelines of SFAS No. 142 using a discounted future cash flow approach to approximate fair value. The result of testing our goodwill for impairment in accordance with SFAS No. 142, as of January 1, 2002, was a non-cash charge of $6,396 (net of minority interest of $8,487), which, consistent with SFAS No. 142, is reported in the caption "cumulative effect of change in accounting principle" in the accompanying consolidated statement of operations. Impairment adjustments recognized in the future, if any, are generally required to be recognized as operating expenses. The $6,396 charge relates to our South American reporting unit within our international reporting segment. The South American reporting unit failed the impairment test primarily due to a reduction in the expected future performance of the unit resulting from a deterioration of the local economic environment and the devaluation of the currency in Argentina. As goodwill amortization expense in our South American reporting unit is not deductible for tax purposes, this impairment charge is not net of a tax benefit. We have a controlling 50.1% interest in Iron Mountain South America, Ltd. ("IMSA") and the remainder is owned by an unaffiliated entity. IMSA has acquired a controlling interest in entities in which local partners have retained a minority interest in order to enhance our local market expertise. These local partners have no ownership interest in IMSA. This has caused the minority interest portion of the non-cash goodwill impairment charge ($8,487) to exceed our portion of the non-cash goodwill impairment charge ($6,396). In accordance with SFAS No. 142, we selected October 1 as our annual goodwill impairment review date. We performed our annual goodwill impairment review as of October 1, 2003 and 2004 and noted no impairment of goodwill at our reporting units as of such dates. As of December 31, 2004, no factors were identified that would alter this assessment.

The changes in the carrying value of goodwill attributable to each reportable operating segment for the years ended December 31, 2003 and 2004 is as follows:

	Business Records Management	Data Protection	International	Corporate & Other	Total Consolidated
Balance as of December 31, 2002	$1,151,760	$237,178	$154,665	$ 1,371	$1,544,974
Deductible goodwill acquired during the year	18,998	7,675	136,178	—	162,851
Non-deductible goodwill acquired during the year	20,332	—	5,887	—	26,219
Adjustments to purchase reserves	(613)	(52)	(285)	—	(950)
Fair value adjustments	3,097	(150)	(4,385)	—	(1,438)
Currency effects and other adjustments	24,898	(30)	19,755	—	44,623
Balance as of December 31, 2003	1,218,472	244,621	311,815	1,371	1,776,279
Deductible goodwill acquired during the year	50,408	881	55,297	3,238	109,824
Non-deductible goodwill acquired during the year	11,106	1,599	11,141	73,667	97,513
Adjustments to purchase reserves	(414)	(104)	11,966	—	11,448
Fair value adjustments	(1,701)	(31)	940	—	(792)
Currency effects and other adjustments	12,780	—	33,214	(49)	45,945
Balance as of December 31, 2004	$1,290,651	$246,966	$424,373	$78,227	$2,040,217

Estimated amortization expense for existing intangible assets (excluding deferred financing costs which are amortized through interest expense) for the next five succeeding fiscal years is as follows:

	Estimated Amortization Expense
2005	$14,672
2006	14,391
2007	14,193
2008	13,957
2009	13,920

h. Long-Lived Assets

In accordance with SFAS No. 144, we review long-lived assets and all amortizable intangible assets (excluding goodwill) for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to their carrying amount. The operations are generally distinguished by the business segment and geographic region in which they operate. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

Consolidated losses on disposal/writedown of property, plant and equipment, net of $774 in the year ended December 31, 2002 consisted of disposals and asset writedowns partially offset by a $2,091 gain on the sale of a property in the U.K. Consolidated losses on disposal/writedown of property, plant and equipment, net of $1,130 in the year ended December 31, 2003 consisted of disposals and asset writedowns partially offset by approximately $4,200 of gains on the sale of properties in Texas, Florida and the U.K. Consolidated gains on disposal/writedown of property, plant and equipment, net of $681 for the year ended December 31, 2004, consisted primarily of a gain on the sale of a property in Florida during the second quarter of 2004 of approximately $1,200 offset by disposals and asset writedowns.

i. Customer Relationships and Acquisition Costs and Other

In connection with adopting SFAS No. 142, we reassessed the useful lives and classification of our intangible assets. Costs related to the acquisition of large volume accounts, net of revenues received for the initial transfer of the records, are capitalized and amortized for periods ranging from five to 30 years (weighted average of 28 years at December 31, 2004). These costs had previously been amortized over periods not to exceed 12 years. If the customer terminates its relationship with us, the unamortized cost is charged to expense. However, in the event of such termination, we collect, and record as income, permanent removal fees that generally equal or exceed the amount of the unamortized costs. Customer relationship intangible assets acquired through business combinations are amortized over periods ranging from five to 30 years (weighted average of 18 years at December 31, 2004). As of December 31, 2003 and 2004, the gross carrying amount of customer relationships and acquisition costs was $131,294 and $213,378, respectively, and accumulated amortization of those costs was $14,828 and $23,598, respectively. For the years ended December 31, 2002, 2003 and 2004, amortization expense was $1,770, $4,395 and $10,044, respectively.

Other intangible assets, including noncompetition agreements, acquired core technology and trademarks, are capitalized and amortized over a weighted average period of six years. As of December 31, 2003 and 2004, the gross carrying amount of other intangible assets was $22,212 and $26,410, respectively, and accumulated amortization of those costs was $20,280 and $9,447, respectively. For the years ended December 31, 2002, 2003 and 2004, amortization expense was $3,046, $2,559 and $1,638, respectively.

j. Deferred Financing Costs

Deferred financing costs are amortized over the life of the related debt using the effective interest rate method. If debt is retired early, the related unamortized deferred financing costs are written off in the period the debt is retired to other (income) expense, net. As of December 31, 2003 and 2004, gross carrying amount of deferred financing costs was $29,620 and $46,231, respectively, and accumulated amortization of those costs was $5,686 and $9,641, respectively, and was recorded in interest expense, net.

k. Investment in Preferred Stock

In May 2000, we made a $6,500 investment in the convertible preferred stock of Live Vault Corporation, a technology development company. This investment is accounted for at the lower of cost or market. In September 2001, we recorded an impairment charge in other (income) expense, net of $6,900, including the original investment and certain loans related to such investment. In December 2001, in connection with a recapitalization of Live Vault, we made an additional $2,000 investment in Live Vault's convertible preferred stock. In December 2002, we recorded an impairment charge related to this investment in other (income) expense, net of $600. In March 2003 and October 2004, we made additional investments of $1,357 and $858, respectively, in Live Vault's convertible preferred stock. As of December 31, 2003 and 2004, $2,757 and $3,615, respectively, of carrying value related to this investment is included in other assets in the accompanying consolidated balance sheets.

l. Accrued Expenses

Accrued expenses consist of the following:

	2003	2004
Interest	$ 48,960	$ 50,669
Payroll and vacation	45,652	43,637
Derivative hability	30,633	7,150
Restructuring costs	16,322	21,414
Incentive compensation	17,528	21,789
Other	75,331	90,038
	$234,426	$234,697

m. Revenues

Our revenues consist of storage revenues as well as service and storage material sales revenues. Storage revenues consist of periodic charges related to the storage of materials (either on a per unit or per cubic foot of records basis). In certain circumstances, based upon customer requirements, storage revenues include periodic charges associated with normal, recurring service activities. Service and storage material sales revenues are comprised of charges for related service activities and courier operations and the sale of storage materials. Customers are generally billed on a monthly basis on contractually agreed-upon terms.

Storage and service revenues are recognized in the month the respective service is provided. Storage material sales are recognized when shipped to the customer. Amounts related to future storage for customers where storage fees are billed in advance are accounted for as deferred revenue and amortized over the applicable period.

n. Rent Normalization

We have entered into various leases for buildings used in the storage of records. Certain leases have fixed escalation clauses or other features which require normalization of the rental expense over the life of the lease resulting in deferred rent being reflected in the accompanying consolidated balance sheets. In addition, we have assumed various above and below market leases in connection with certain of our acquisitions. The difference between the present value of these lease obligations and the market rate at the date of the acquisition was recorded as a prepaid rent or deferred rent liability and is being amortized over the remaining lives of the respective leases.

o. Stock-Based Compensation

As of January 1, 2003, we adopted the measurement provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." As a result we began using the fair value method of accounting in our financial statements beginning January 1, 2003 using the prospective method. The prospective method involves recognizing expense for the fair value for all awards granted or modified in the year of adoption and thereafter with no expense recognition for previous awards. Additionally, we recognize expense related to the discount embedded in our employee stock purchase plan. We will apply the fair value recognition provisions to all stock based awards granted, modified or settled on or after January 1, 2003 and will continue to provide the required pro forma information for all awards previously granted, modified or settled before January 1, 2003.

Had we elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123 and No. 148, net income and net income per share would have been changed to the pro forma amounts indicated in the table below:

	2002	2003	2004
Net income, as reported	$58,292	$84,637	$94,191
Add: Stock-based employee compensation expense included in reported net income, net of tax benefit	—	984	3,567
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax benefit	(2,687)	(3,304)	(5,432)
Net income, pro forma	$55,605	$82,317	$92,326
Earnings per share:			
Basic—as reported	0.46	0.66	0.73
Basic—pro forma	0.44	0.65	0.72
Diluted—as reported	0.45	0.65	0.72
Diluted—pro forma	0.43	0.63	0.70

The weighted average fair value of options granted in 2002, 2003 and 2004 was $9.70, $10.97 and $8.58 per share, respectively. The values were estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average assumptions used for grants in the year ended December 31:

Assumption	2002	2003	2004
Expected volatility	27.5%	27.0%	24.8%
Risk-free interest rate	4.08	2.91	3.41
Expected dividend yield	None	None	None
Expected life of the option	5.0 years	5.0 years	5.0 years

p. Merger-Related Expenses

Merger-Related expenses as presented in the accompanying consolidated financial statements relate primarily to noncapitalizable expenses directly related to our merger with Pierce Leahy Corp. and consist primarily of severance, relocation and pay-to-stay payments, costs of exiting certain facilities, system conversion costs and other transaction-related costs.

q. Income Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of assets and liabilities and for loss and credit carryforwards. Valuation allowances are provided when recovery of deferred tax assets is not considered likely.

r. Income Per Share—Basic and Diluted

In accordance with SFAS No. 128, "Earnings per Share," basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding. The calculation of diluted net income per share is consistent with that of basic net income per share but gives effect to all potential common shares (that is, securities such as options, warrants or convertible securities) that were outstanding during the period, unless the effect is antidilutive. Potential common shares, substantially attributable to stock options, included in the calculation of diluted net income per share totaled 2,130,983, 2,177,201 and 2,092,831 shares for the years ended December 31, 2002, 2003 and 2004, respectively. Potential common shares of 475,296, 570,456 and 91,045 for the years ended December 31, 2002, 2003 and 2004, respectively, have been excluded from the calculation of diluted net income per share, as their effects are antidilutive.

s. New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R is a revision of SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). We adopted the measurement provisions of SFAS No. 123 and SFAS No. 148 in our financial statements beginning January 1, 2003 using the prospective method. The prospective method involves recognizing expense for the fair value for all awards granted or modified in the year of adoption and thereafter with no expense recognition for previous awards. We have applied the fair value recognition provisions to all stock based awards granted, modified or settled on or after January 1, 2003.

Among other items, SFAS No. 123R eliminates the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS No. 123R is the first reporting period beginning after June 15, 2005, which would be our third quarter of 2005, although early adoption is allowed. SFAS No. 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but this method also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123.

SFAS No. 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 required under current rules. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. Since we do not pay significant cash taxes currently, we do not expect this provision to materially impact our statement of cash flows within the next few years.

We expect to adopt SFAS No. 123R effective July 1, 2005 using the modified prospective method of implementation. Subject to a complete review of the requirements of SFAS No. 123R, based on outstanding stock options granted to employees prior to our prospective implementation of the measurement provisions of SFAS No. 123 and SFAS No. 148 on January 1, 2003, we expect to record approximately $900 of stock compensation expense in the second half of 2005 associated with unvested stock option grants issued prior to January 1, 2003.

In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). The American Jobs Creation Act of 2004 ("AJCA") introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer ("repatriation provision"), provided certain criteria are met. FSP 109-2 provides accounting and disclosure guidance for the repatriation provision. The Treasury Department or Congress will be providing additional clarifying language on key elements of the repatriation provision in the future. FSP 109-2 grants an enterprise additional time beyond the year ended December 31, 2004, in which the AJCA was enacted, to evaluate the effects of the AJCA on its plan for reinvestment or repatriation of unremitted earnings. FSP 109-2 calls for enhanced disclosures of, among other items, the status of our evaluations, the effects of completed evaluations, and the potential range of income tax effects of repatriations. Such disclosures are included in Note 10.

t. Rollforward of Allowance for Doubtful Accounts and Credit Memo Reserves

	Balance at Beginning of the Year	Charged to Revenue	Charged to Expense	Other Additions[(1)]	Deductions[(2)]	Balance at End of the Year
2002	$17,086	$12,133	$11,597	$3,365	$(22,772)	$21,409
2003	21,409	14,657	(2,292)	9,133	(21,985)	20,922
2004	20,922	17,858	(4,569)	4,397	(24,722)	13,886

(1) Primarily consists of recoveries of previously written-off accounts receivable, allowances of businesses acquired and the impact associated with currency translation adjustments.

(2) Primarily consists of the write-off of accounts receivable and adjustments to allowances of businesses acquired.

u. Accumulated Other Comprehensive Items, Net

Accumulated other comprehensive items, net consists of the following:

	2003	2004
Foreign currency translation adjustments	$ 7,890	$22,559
Unrealized loss on hedging contracts	(16,247)	(2,671)
Unrealized gain on securities	311	397
	$ (8,046)	$20,285

1.51

POTLATCH CORPORATION (DEC)

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Potlatch Corporation and its subsidiaries after elimination of significant intercompany transactions and accounts. There are no significant unconsolidated subsidiaries.

Potlatch Corporation is an integrated forest products company with substantial timber resources. We are engaged principally in the growing and harvesting of timber and the manufacture and sale of wood products and pulp and paper products. Our timberlands and all of our manufacturing facilities are located within the continental United States. The primary market for our products is the United States, although we sell a significant amount of paperboard to countries in the Pacific Rim.

Certain amounts for 2003 and 2002 have been reclassified in the consolidated financial statements and notes to conform to the 2004 presentation, as a result of the divestiture of our oriented strand board operations.

Use of Estimates

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

Earnings (Loss) Per Common Share

Earnings (loss) per common share are computed by dividing net earnings (loss) by the weighted average number of common shares outstanding in accordance with SFAS No. 128, "Earnings Per Share." The following table reconciles the number of common shares used in the basic and diluted earnings per share calculations:

	2004	2003	2002
Basic average common shares outstanding	29,396,880	28,706,323	28,461,817
Incremental shares due to:			
Common stock options	117,405	12,105	—
Accelerated stock repurchase program	416	—	—
Diluted average common shares outstanding	29,514,701	28,718,428	28,461,817

Incremental shares due to common stock options of 17,042 for the year ended December 31, 2002, were not included in the diluted average common shares outstanding total for 2002 due to their antidilutive effect as a result of our net loss for that year. Stock options to purchase 460,163, 2,327,470 and 1,981,907 shares of common stock for 2004, 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because the exercise prices of the stock options were greater than the average market price of the common shares.

The computation of diluted average common shares outstanding is affected by our accelerated stock repurchase program to the extent that the volume weighted average price of the shares repurchased under the program exceeds the price per share initially paid at the program's inception. That is, it is assumed that any additional amounts payable to the counterparty will be settled by shares of the company's stock, and thus any such differential that exists at the end of each reporting period is included in the computation of diluted average common shares outstanding. The reverse treasury stock method is used to calculate the additional number of shares to be included in the diluted share total.

Equity-Based Compensation

We currently have three stock incentive plans, the 1989, 1995 and 2000 plans, under which stock options or performance shares are outstanding. Currently, we apply the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 and related Interpretations in accounting for our equity-based compensation. No compensation cost is recognized for options granted under the plans when the exercise price is equal to market value at the grant date. For performance share awards, which were first granted in December 2003, compensation expense is recorded ratably over the performance period based upon the market value of our stock and the likelihood that performance measurements will be met. Compensation expense related to performance shares was $1.2 million in 2004 and less than $0.1 million in 2003.

Had equity-based compensation costs been determined based on the fair value at the grant dates as prescribed by SFAS No. 123 (as amended by SFAS No. 148), our net earnings (loss) and earnings (loss) per share would have been the pro forma amounts indicated below:

(Dollars in thousands except per-share amounts)	2004	2003	2002
Net earnings (loss), as reported	$271,249	$50,727	$(234,381)
Add: stock based compensation expense recorded under APB No. 25, net of tax	718	35	—
Deduct: stock based compensation determined under SFAS No. 123, net of tax	(1,597)	(1,964)	(1,912)
Pro forma net earnings (loss)	$270,370	$48,798	$(236,293)
Basic net earnings (loss) per share, as reported	$ 9.23	$ 1.77	$ (8.23)
Diluted net earnings (loss) per share, as reported	9.19	1.77	(8.23)
Pro forma basic net earnings (loss) per share	9.20	1.70	(8.30)
Pro forma diluted net earnings (loss) per share	9.17	1.70	(8.30)

As required by SFAS No. 123 (Revised 2004), we will begin recognizing compensation costs in the Statements of Operations for all equity-based compensation plans in the third quarter of 2005. Compensation cost will be determined using the modified prospective method.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out method is used to determine cost of logs, lumber, plywood, particleboard and chips. The average cost method is used to determine cost of all other inventories.

Properties

Property, plant and equipment are valued at cost less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method of depreciation. Estimated useful lives range from 30 to 40 years for buildings and structures and 2 to 25 years for equipment.

Timber, timberlands and related logging facilities are valued at cost, net of the cost of fee timber harvested and depreciation and amortization of the related logging facilities. For fee timber the capitalized cost includes costs related to stand establishment, such as site preparation, including all costs of preparing the land for planting, cost of seeds or seedlings, whether purchased or company produced, tree planting, including labor, materials, depreciation of company-owned equipment and the cost of contract services. Upon completion of planting activities and field inspection to assure the planting operation was successful, a plantation will be considered "established." Subsequent expenditures made to maintain the integrity or enhance the growth of an established plantation or stand are expensed. Post-establishment expenses include release spray treatments, pest control activities, thinning operations and fertilization. Expenditures for forest management consist of regularly recurring items necessary to ownership and administration of timber producing property such as fire protection, property taxes and insurance, silviculture costs incurred subsequent to stand establishment, cruising (physical inventory), property maintenance and salaries, supplies, travel, record-keeping and other normal recurring administrative personnel costs and are accounted for as current operating expenses. Timberland purchased on the open market is capitalized and the cost is allocated to the relative values of the component items as appraised, such as timberland, merchantable sawtimber, merchantable pulpwood, reproduction (young growth not merchantable), logging roads and other land improvements. The capitalized cost includes purchase price, title search and title recording, transfer taxes and fees, cruise of timber, appraisals and running of boundary lines.

The aggregate volume of current standing timber inventory is updated at least annually to reflect increases in merchantable timber due to reclassification of young growth stands to merchantable timber stands, the annual growth rates of merchantable timber, the acquisition of additional merchantable timber, and to reflect decreases due to timber harvests and land sales. Reproduction accounts are reviewed annually, and dollars and volumes are transferred from reproduction accounts to merchantable timber accounts on a reasonable and consistent basis. Volumes and the related accumulated costs are tracked and, as the timber is harvested, the cost per ton is amortized to cost of fee timber harvested. Total standing volume is estimated on an annual basis using inventory data and a forest growth projection model. Inventory is estimated from cruises of the timber tracts, which are completed on all of our timberlands on approximately a 10-year cycle. Since the individual cruises collect field data at different times for specific sites, the growth-model projects standing inventory from the cruise date to a common reporting date. Average annual growth rates for the merchantable inventory have historically been in the range of 2%–3%.

Logging roads and related facilities on land not owned by us are amortized as the related timber is removed. Logging roads and related facilities on our land are presumed to become a part of our road system unless it is known at the time of construction that the road will be abandoned. Therefore, the base cost of the road, such as the clearing, grading, and ditching, is not amortized and remains a capitalized item until abandonment or other disposition, while other portions of the initial cost, such as bridges, culverts and gravel surfacing are depreciated over their useful lives, which range from 10 to 20 years. When it is known at the time of construction or purchase that a road will be abandoned after a given event has occurred, the total cost is amortized in the same manner as for roads on non-owned land.

Major improvements and replacements of property are capitalized. Maintenance, repairs, and minor improvements and replacements are expensed. Upon retirement or other disposition of property, applicable cost and accumulated depreciation or amortization are removed from the accounts. Any gains or losses are included in earnings.

Long-Lived Assets

We account for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Income Taxes

The provision for taxes on income is based on earnings or loss reported in the consolidated financial statements. Deferred income taxes are recorded under the asset and liability method for the temporary differences between reported earnings and taxable income using current tax laws and rates.

Environment

As part of our corporate policy, we have an ongoing process to monitor, report on and comply with environmental requirements. Based on this ongoing process, accruals for environmental liabilities are established in accordance with SFAS No. 5, "Accounting for Contingencies." We estimate our environmental liabilities based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental liability. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and monitoring activities and the probable cost of these activities, and in some cases reflect assumptions and judgments as to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities. Due to the numerous uncertainties and variables associated with these assumptions and judgments, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related liabilities are subject to substantial uncertainties. We regularly monitor our estimated exposure to environmental liabilities and, as additional information becomes known, our estimates may change significantly. Our estimates of our environmental liabilities do not reflect potential future recoveries from insurance carriers except to the extent that recovery may from time to time be deemed probable as a result of a carrier's agreement to payment terms. In those instances in which our estimated exposure reflects actual or anticipated cost-sharing arrangements with third parties, we do not believe that we will be exposed to additional material liability as a result of non-performance by such third parties. Currently, we are not aware of any material environmental liabilities and have accrued for only specific environmental remediation costs that we have determined are probable and reasonably estimable.

Revenue Recognition

We recognize revenue from product sales to our customers when title and risk of loss pass to the customer. In the case of export sales, title may not pass until the product reaches a foreign port. For land sales, we recognize revenue when title to the land passes to the buyer at closing and collection of proceeds is assured.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." The Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. The Statement also requires that allocation of fixed production overhead costs be based on normal production capacity. The provisions of SFAS No. 151 are effective for inventory costs incurred beginning in January 2006, with adoption permitted for inventory costs incurred beginning in January 2005. Adoption of this Statement is not expected to have a material effect on our financial condition or results of operations.

In December 2004 the FASB issued a revision of SFAS No. 123, "Share-Based Payment." The revised Statement requires the recognition of compensation cost in the Statement of Operations for equity instruments awarded to employees, based on the grant date fair value of the award. The Statement is effective for interim or annual periods beginning after June 15, 2005. We will use the modified prospective method to implement the new Statement on July 1, 2005, and believe the effect of adoption on our results of operations will be comparable to the pro forma disclosures contained under the heading "Equity-Based Compensation," presented earlier in this section.

In December 2004 the FASB also issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions" and SFAS No. 153, "Exchanges of Nonmonetary Assets." We are not currently engaged in transactions that would fall under the provisions of these Statements and therefore believe that adoption of the Statements on their effective dates will not have a material effect on our financial position or results of operations.

ACCOUNTING CHANGES

1.52 APB Opinion No. 20, *Accounting Changes*, defines various types of accounting changes, including a change in accounting principle, 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.

1.53 *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 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.

1.54 *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.

1.55 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.

1.56 Examples of accounting principle change disclosures follow.

1.57

TABLE 1-8: ACCOUNTING PRINCIPLE CHANGES

	Number of Companies			
	2004	2003	2002	2001
Consolidation of variable interest entities	176	200	N/C*	N/C*
Postretirement prescription drug benefit	92	N/C*	N/C*	N/C*
Financial instruments with liability and equity characteristics	24	188	N/C*	N/C*
Revenue recognition	24	46	6	60
Derivatives and hedging activities	21	158	29	342
Stock compensation	16	122	16	5
Asset retirement obligation	9	125	7	N/C*
Customer consideration from vendor	7	30	N/C*	N/C*
Guarantees	4	172	N/C*	N/C*
Impairment or disposal of long-lived assets	4	68	156	N/C*
Inventories	4	3	5	3
Cost of exit or disposal activities	3	181	18	N/C*
Gain or losses from debt extinguishments	2	59	54	N/C*
Goodwill and other intangibles	1	57	465	19
Shipping and handling	1	1	2	38
Business combinations	1	8	54	73
Other	83	44	89	41

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

Consolidation of Variable Interest Entities

1.58

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation and Consolidation (In Part)

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our Company consolidates all entities that we control by ownership of a majority voting interest as well as variable interest entities for which our Company is the primary beneficiary. Refer to the heading "Variable Interest Entities" for a discussion of variable interest entities.

Variable Interest Entities

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("Interpretation 46" or "FIN 46"). Application of this interpretation was required in our consolidated financial statements for the year ended December 31, 2003 for interests in variable interest entities that were considered to be special-purpose entities. Our Company determined that we did not have any arrangements or relationships with special-purpose entities. Application of Interpretation 46 for all other types of variable interest entities was required for our Company effective March 31, 2004.

Interpretation 46 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation 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. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and noncontrolling interests at fair value and subsequently account for the variable interest as if it were consolidated based on majority voting interest.

In our financial statements as of December 31, 2003 and prior to December 31, 2003, we consolidated all entities that we controlled by ownership of a majority of voting interests. As a result of Interpretation 46, effective as of March 31, 2004, our consolidated balance sheet includes the assets and liabilities of:

- all entities in which the Company has ownership of a majority of voting interests; and additionally,
- all variable interest entities for which we are the primary beneficiary.

Our Company holds interests in certain entities, primarily bottlers, previously accounted for under the equity method of accounting that are considered variable interest entities. These variable interests relate to profit guarantees or subordinated financial support for these entities. Upon adoption of Interpretation 46 as of March 31, 2004, we consolidated assets of approximately $383 million and liabilities of approximately $383 million that were previously not recorded on our consolidated balance sheet. We did not record a cumulative effect of an accounting change, and prior periods were not restated. The results of operations of these variable interest entities were included in our consolidated results beginning April 1, 2004 and did not have a material impact for the year ended December 31, 2004. Our Company's investment, plus any loans and guarantees, related to these variable interest entities totaled approximately $313 million at December 31, 2004, representing our maximum exposure to loss. Any creditors of the variable interest entities do not have recourse against the general credit of the Company as a result of including these variable interest entities in our consolidated financial statements.

1.59

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 is 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. 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 of May 29, 2004. As permitted under FIN 46(R), prior periods were not restated.

Due to the company's history of providing on-going subordinated financial support to these dealerships, through consolidation the company absorbs all net losses of the variable interest entities in excess of the equity at the dealerships. The company recognizes all net earnings of these variable interest entities to the extent of recouping the company's losses. Earnings in excess of the company's losses are attributed to equity owners of the dealerships and shown as minority interest on the company's financial statements.

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 other than the cumulative effect adjustment. In the future, the company will include the results of operations of the VIEs in its Consolidated Statement of Operations.

The impact of consolidating the VIEs on the company's Consolidated Balance Sheet at May 29, 2004, was an increase in the company's assets and liabilities of approximately $2.0 million and $2.6 million, respectively. 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.

Postretirement Prescription Drug Benefit

1.60

CORNING INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Employee Retirement Plans

Medicare Prescription Drug, Improvement and Modernization Act of 2003

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was passed which expands Medicare to include an outpatient prescription drug benefit beginning in 2006. In May 2004, the FASB issued 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. 106-1), which provides guidance on how companies should account for the impact of the Act on its postretirement health care plans. To encourage employers to retain or provide postretirement drug benefits, beginning in 2006 the federal government will provide non-taxable subsidy payments to employers that sponsor prescription drug benefits to retirees that are "actuarially equivalent" to the Medicare benefit. Corning has determined that its postretirement health care plans' prescription drug benefits are actuarially equivalent to Medicare Part D benefits to be provided under the Act. Effective in the third quarter of 2004, Corning prospectively adopted the accounting guidance of FSP No. 106-2, which reduced our postretirement health care and life insurance plans' accumulated postretirement benefit obligation by $73 million and the related annual expense by $10 million. For 2004, our postretirement benefit expense decreased $5 million reflecting the adoption of this accounting guidance.

1.61

DANA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Recent Accounting Pronouncements (In Part)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted in the U.S. The Act provides, among other things, expanded Medicare healthcare benefits to include an outpatient prescription drug benefit to Medicare eligible residents of the U.S. (Medicare Part D) beginning in 2006. Prescription drug coverage will be available to eligible individuals who voluntarily enroll under the Part D plan. As an alternative, employers may provide drug coverage at least "actuarially equivalent to standard coverage" and receive a tax-free federal subsidy equal to 28% of a portion of a Medicare beneficiary's drug costs for covered retirees who do not enroll in a Part D plan.

In May 2004, the FASB issued Staff Position FAS (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," to provide guidance on accounting for the effects of the Act. FSP No. 106-2 requires treating the initial effect of the employer subsidy on the accumulated postretirement benefit obligation (APBO) as an actuarial gain. The subsidy also affects the estimate of service cost in measuring the cost of benefits attributable to current service. The effects of plan amendments adopted subsequent to the Act to qualify plans as actuarially equivalent are treated as actuarial gains if the net effect of the amendments reduces the APBO. The net effect on the APBO of any plan amendments that (a) reduce benefits under the plan and thus disqualify the benefits as actuarially equivalent and (b) eliminate the subsidy are accounted for as prior service cost.

During the third quarter of 2004, we adopted FSP No. 106-2 retroactively to the beginning of 2004. The initial effect of the subsidy was a reduction in our APBO at January 1, 2004 of $68 and a corresponding actuarial gain, which we deferred in accordance with our accounting policy related to retiree benefit plans. Amortization of the actuarial gain, along with a reduction in service and interest costs, increased net income for 2004 by $8.

Financial Instruments With Liability and Equity Characteristics

1.62

H. J. HEINZ COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Recently Issued Accounting Standards

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement affects the classification, measurement and disclosure requirements of certain freestanding financial instruments including mandatorily redeemable shares. SFAS No. 150 was effective for the Company for the second quarter of Fiscal 2004. The adoption of SFAS No. 150 required the prospective classification of Heinz Finance Company's $325 million of mandatorily redeemable preferred shares from minority interest to long-term debt and the $5.1 million quarterly preferred dividend from other expenses to interest expense beginning in the second quarter ending October 29, 2003, with no resulting effect on the Company's profitability.

8 (In Part): Debt

(Dollars in thousands)	2004	2003
5.00% Euro notes due January 2005	$ 355,303	$ 335,621
6.85% New Zealand dollar notes due February 2005	55,971	50,400
5.125% Euro notes due April 2006	493,539	501,897
6.00% U.S. dollar notes due March 2008	299,221	299,022
6.226% Heinz Finance preferred stock due July 2008	325,000	—
6.625% U.S. dollar notes due July 2011	749,248	749,142
6.00% U.S. dollar notes due March 2012	695,944	695,427
U.S. dollar remarketable securities due November 2020	800,000	800,000
6.375% U.S. dollar debentures due July 2028	243,350	243,074
6.25% British pound notes due February 2030	219,700	198,314
6.75% U.S. dollar notes due March 2032	547,409	547,316
Other U.S. dollar due May 2005–November 2034 (3.00–8.33%)	10,193	18,479
Other Non-U.S. dollar due August 2004–March 2022 (2.90–11.00%)	42,793	50,597
	4,837,671	4,489,289
SFAS 133 hedge accounting adjustments	125,325	294,802
Less portion due within one year	(425,016)	(7,948)
Total long-term debt	$4,537,980	$4,776,143
Weighted-average interest rate on long-term debt, including the impact of applicable interest rate swaps	3.69%	4.25%

The fair value of the debt obligations approximated the recorded value as of April 28, 2004 and April 30, 2003. Annual maturities of long-term debt during the next five fiscal years are $425.0 million in 2005, $497.7 million in 2006, $1.9 million in 2007, $301.2 million in 2008 and $327.1 million in 2009.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement affects the classification, measurement and disclosure requirements of certain financial instruments, including mandatorily redeemable shares. SFAS No. 150 was effective for the Company in the second quarter of Fiscal 2004. The adoption of SFAS No. 150 required the prospective classification of Heinz Finance's $325 million of mandatorily redeemable preferred shares from minority interest to long-term debt.

Revenue Recognition

1.63

SUN MICROSYSTEMS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition (In Part)

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(s) 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(s) 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, revenue is deferred until we have evidence of customer acceptance.

Recent Pronouncements (In Part)

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Elements" (EITF 00-21), which addresses certain aspects of accounting for arrangements that include multiple products or services. Specifically this Issue states that in an arrangement with multiple deliverables, the delivered items should be considered a separate unit of accounting if: (1) the delivered items have value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of the undelivered items; and (3) the arrangement includes a general right of return relative to the delivered item, and delivery or performance of the undelivered items is considered probable and substantially within our control. Additionally, EITF 00-21 states that the consideration should be allocated among the separate units of accounting based upon their relative fair values. If there is objective and reliable evidence of the fair value of the undelivered items in an arrangement but no such evidence for the delivered items, then the residual method should be used to allocate the consideration. Under the residual method, the amount of consideration allocated to the delivered items equals the total consideration less the aggregate fair value of the undelivered items. Accordingly, the application of EITF 00-21 may impact the timing of revenue recognition as well as the allocation between products and services. The adoption of EITF 00-21 for transactions entered into after July 1, 2003 did not have a significant impact on our consolidated financial statements.

Derivatives and Hedging Activities

1.64

QUANTUM CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 23 (In Part): Recent Accounting Pronouncements

Derivative Instruments and Hedging Activities

In April 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends SFAS 133 for certain decisions made by the FASB Derivatives Implementation Group. In particular, SFAS 149: (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and (4) amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. In addition, most provisions of SFAS 149 are to be applied prospectively. The adoption of SFAS 149 did not have a material impact on Quantum's financial position, cash flows or results of operations.

Stock Compensation

1.65

OMNICOM GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Employee Stock Options

Options are accounted for in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123". We elected, effective January 1, 2004, to account for stock-based employee compensation using the fair value method. As a result, the fair value of stock-based employee compensation, including unvested employee stock options issued and outstanding, were recorded as an expense in the current year utilizing the retroactive restatement method as set forth in SFAS 148. Accordingly, our results for the prior years have been restated as if we had used the fair value method to account for stock-based employee compensation. Pre-tax stock-based employee compensation costs for the years ended December 31, 2004, 2003, and 2002, were $117.2 million, $133.1 million and $173.5 million, respectively. Also in connection with the restatement, our December 31, 2003 balance sheet presented reflects an increase in the deferred tax benefit of $120.5 million, an increase in additional paid-in capital of $434.7 million, an increase in unamortized stock compensation of $92.6 million and a decrease in retained earnings of $221.6 million. Information about our specific awards and stock plans can be found in note 7.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004)—Share-Based Payment ("SFAS 123R") which is effective for reporting periods beginning after June 15, 2005 and generally applies to grants made after adoption. SFAS 123R is a revision of FASB No. 123, Accounting for Stock-Based Compensation. As a result of our adoption of SFAS 123 on January 1, 2004, we believe that the adoption of SFAS 123R will not have a material impact on our consolidated results of operations or financial position. However, we are in the process of assessing the full impact of this revision.

The table below presents a reconciliation of net income and earnings per share, as reported, to the restated results for the years ended December 31, 2003 and 2002.

		Earnings Per Common Share	
(Dollars in millions, except per share amounts)	Net Income	Basic	Diluted
As reported, year ended December 31, 2003	$675.9	$ 3.61	$ 3.59
Less fair value of stock options issued, net of taxes	44.9	0.24	0.22
Restated, year ended December 31, 2003	$631.0	$ 3.37	$ 3.37
As reported, year ended December 31, 2002	$643.5	$ 3.46	$ 3.44
Less fair value of stock options issued, net of taxes	73.0	0.39	0.37
Restated, year ended December 31, 2002	$570.5	$ 3.07	$ 3.07

1.66

RITE AID CORPORATION (FEB)

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

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation

The Company has several stock option plans, which are described in detail in note 14. Prior to fiscal 2004, the Company accounted for these plans under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Effective March 2, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", Under the modified prospective method of adoption selected by the Company under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" compensation expense recognized in fiscal 2004 is the same as that which would have been recognized had the recognition provisions of SFAS No. 123 been applied from its original effective date. Results for prior years have not been restated.

The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 in all years presented.

	2004	2003	2002
Net income (loss) as reported:	$ 83,311	$(112,076)	$(827,681)
Add: Stock-based compensation expense (benefit) included in reported income (loss)	29,821	4,806	(15,891)
Deduct: Total stock-based compensation determined under the fair value method for all awards	(29,821)	(39,500)	(50,235)
Pro forma net income (loss)	$ 83,311	$(146,770)	$(893,807)
Income (loss) per share:			
Basic—as reported	$ 0.11	$ (0.28)	$ (1.82)
Diluted—as reported	$ 0.11	$ (0.28)	$ (1.82)
Basic—pro forma	$ 0.11	$ (0.35)	$ (1.96)
Diluted—pro forma	$ 0.11	$ (0.35)	$ (1.96)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Expected stock price volatility	85.5%	69.4%	68.7%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	3.00%	2.63%	4.25%
Expected life of options	5.0 years	5.0 years	5.0 years

The average fair value of each option granted during fiscal 2004, 2003 and 2002 was $4.65, $1.37 and $3.46, respectively.

Asset Retirement Obligation

1.67

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements (In Part)

At the beginning of fiscal 2004, we adopted SFAS No. 143, "Accounting for 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 impact from the adoption of this statement is discussed in Note 7 to the Consolidated Financial Statements.

Note 7. Asset Retirement Obligations

We adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," at the beginning of fiscal 2004. This statement requires that the fair value of a legal liability for an asset retirement obligation be recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. Our asset retirement obligations arise primarily from contractual commitments to decontaminate machinery and equipment used at our manufacturing facilities at the time we dispose of or replace them. We also have leased facilities where we have asset retirement obligations form contractual commitments to remove leasehold improvements and return the property to a specified condition when the lease terminates. As a result of our evaluation of our asset retirement obligations, we recorded a $2.1 million noncurrent liability for asset retirement obligations and a $0.4 million increase in the carrying value of the related assets, net of $1.0 million of accumulated depreciation at the beginning of fiscal 2004. The cumulative effect that was recorded in the first quarter of fiscal 2004 upon the adoption of this accounting standard resulted in a charge of $1.9 million, including a tax effect of $0.2 million.

We did not recognize any asset retirement obligations associated with the closure or abandonment of the manufacturing facilities we own. We currently intend to operate these facilities indefinitely and are therefore unable to reasonably estimate the fair value of any legal obligations we may have because of the indeterminate closure dates.

The following table presents the activity for the asset retirement obligations for the year ended May 30, 2004:

(In millions)	
Balance at beginning of fiscal 2004	$2.1
Liability incurred for assets acquired	0.2
Accretion expense	0.2
Ending balance	$2.5

The following table presents net income (loss) and earnings (loss) per share for fiscal 2004, 2003 and 2002 as if the provisions of SFAS No. 143 had been applied at the beginning of fiscal 2002:

(In millions, except per share amounts)	2004	2003	2002
Net income (loss), as reported	$282.8	$(33.3)	$(121.9)
Add back:			
Cumulative effect of a change in accounting principle including tax effect of $0.2 million	1.9	—	—
Deduct:			
Accretion and depreciation in fiscal 2003 and 2002, net of tax	—	0.2	0.2
Net income (loss), as adjusted	$284.7	$(33.5)	$(122.1)
Net income (loss) per share as adjusted:			
Basic	$ 0.79	$(0.09)	$ (0.34)
Diluted	$ 0.73	$(0.09)	$ (0.34)

Customer Consideration From a Vendor

1.68

KOHL'S CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Vendor Allowances

In November 2002, the Emerging Issues Task Force ("EITF") released No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor," applicable to fiscal years beginning after December 15, 2002 and is effective for contracts entered into after December 31, 2002. The adoption of EITF No. 02-16 did not have a material impact on net income in fiscal 2003, as the Company entered into substantially all of its fiscal 2003 vendor contracts prior to December 31, 2002. Because substantially all new vendor contracts for new store advertising had been put in place for fiscal 2004, the Company adopted the provisions of EITF No. 02-16 and accounted for these allowances as a reduction of inventory and cost of merchandise sold in fiscal 2004. This change in accounting reduced fiscal year 2004 diluted net income per share by approximately $0.03 per diluted share with the majority of the impact on net income occurring during the first and third quarters of fiscal 2004 in conjunction with the Company's new store openings and build in inventory. This change in accounting did not impact the Company's cash flow or the amount of contributions received from the Company's vendors.

Inventories

1.69

VISTEON CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Restatement of Financial Statements

Visteon has restated its previously issued consolidated financial statements for 2001 through 2003 and for the first nine months of 2004, primarily for accounting corrections related to postretirement health care and pension costs, tooling costs, capital equipment costs, inventory costing and income taxes.

In addition, these financial statements have been restated to reflect Visteon's change in the method of determining the cost of production inventory for U.S. locations from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Prior to the fourth quarter of 2004, production inventories in the U.S. were valued substantially using the LIFO method. During the fourth quarter of 2004, Visteon changed the method of determining the cost of production inventory for U.S. locations from the LIFO method to the FIFO method. Visteon believes the FIFO method of inventory costing provides more meaningful information to investors and conforms all inventories to the same FIFO basis. As a result, all inventories are now stated at the lower of cost, determined on a FIFO basis, or market. In accordance with Accounting Principles Board Opinion No. 20. "Accounting Changes", a change from the LIFO method of inventory costing to another method is considered a change in accounting principle that should be applied by retroactively restating all prior periods.

As a result of the restatement, originally reported net loss increased by $81 million for the nine months ended September 30, 2004, decreased originally reported net loss by $6 million for the year ended December 31, 2003 and increased originally reported net loss by $16 million for the year ended December 31, 2002. The restatement increased originally reported net loss per share by $0.64 for the nine months ended September 30, 2004, decreased originally reported net loss per share by $0.06 for the year ended December 31, 2003 and increased originally reported net loss per share by $0.13 for the year ended December 31, 2002.

The following table summarizes the impact of these adjustments to Visteon's previously reported net loss. These adjustments impacted previously reported costs of sales, selling, administrative and other expenses and income tax expense on the statement of operations.

	First Nine Months (Unaudited)	Year Ended December 31,	
(In millions)	2004	2003	2002
Net (loss), as originally reported	$(1,299)	$(1,213)	$(352)
Accounting corrections for postretirement health care costs and pension costs (pre-tax)	(28)	(29)	(21)
Accounting corections for tooling costs (pre-tax)	(2)	(5)	(4)
Accounting corrections for capital equipment costs (pre-tax)	(4)	(7)	—
Accounting corrections for inventory costs (pre-tax)	—	—	9
Tax impact of above	—	(13)	6
Accounting correction for taxes	(39)	32	—
Accounting correction for taxes	(8)	(8)	—
Net (loss), adjusted for impact of error corrections	(1,380)	(1,243)	(362)
Accounting for change in inventory cost methodology (pre-tax)(8)	—	3	(9)
Tax impact of change in inventory cost methodology(8)	—	33	3
Net (loss), as restated	$(1,380)	$(1,207)	$(368)

(8) During the fourth quarter of 2004, Visteon changed the method of determining the cost of production inventory for U.S. locations from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Visteon believes the FIFO method of inventory costing provides more meaningful information to investors and conforms all inventories to the same FIFO basis. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes", a change from the LIFO method of inventory costing to another method is considered a change in accounting principle that should be applied by retroactively restating all prior periods. The impact of this change in accounting, including a $34 million reduction to the fourth quarter of 2003 non-cash valuation allowance for net deferred tax assets in the U.S., decreased net loss by approximately $36 million ($0.29) per share) for the year ended December 31, 2003 and increased net loss by $6 million ($0.04 per share) for the year ended December 31, 2002.

Note 17 (In Part): Accounting Changes

During the fourth quarter of 2004, Visteon changed the method of determining the cost of production inventory for U.S. locations from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Prior to the fourth quarter of 2004, production inventories in the U.S. were valued substantially using the LIFO method. Visteon believes the FIFO method of inventory costing provides more meaningful information to investors and conforms all inventories to the same FIFO basis. As a result, all inventories are now stated at the lower of cost, determined on a FIFO basis, or market. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes", a change from the LIFO method of inventory costing to another method is considered a change in accounting principle that should be applied by retroactively restating all prior periods. This change decreased the 2003 net loss by $36 million ($0.29 per share), which includes a $34 million reduction to the fourth quarter of 2003 non-cash charge which established a valuation allowance against our net deferred tax assets in the U.S.; and increased 2002 net loss by $6 million ($0.04 per share). The change in accounting from LIFO to FIFO resulted in a cumulative increase to stockholders equity at January 1, 2002 of $61 million.

CONSOLIDATION POLICIES

1.70 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.

1.71 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.

1.72 *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*.

1.73 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.

1.74 Examples of consolidation practice disclosures follow.

1.75

TABLE 1-9: NONHOMOGENEOUS OPERATIONS—CONSOLIDATED

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Credit	67	56	54	47
Insurance	16	12	12	20
Leasing	14	14	9	8
Real estate	13	7	3	5
Banks	3	1	2	5

1.76

DEERE & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation (In Part)

The consolidated financial statements represent the consolidation of all companies in which Deere & Company has a controlling interest. Deere & Company records its investment in each unconsolidated affiliated company (generally 20 to 50 percent ownership) at its related equity in the net assets of such affiliate. Other investments (less than 20 percent ownership) are recorded at cost. Consolidated retained earnings at October 31, 2004 include undistributed earnings of the unconsolidated affiliates of $10 million. Dividends from unconsolidated affiliates were $22 million in 2004, $3 million in 2003 and $2 million in 2002 (see Note 6).

Special purpose entities (SPEs) related to the sale and securitization of financing receivables, which are also variable interest entities (VIEs), are not consolidated since the company does not control these entities, and they either meet the requirements of qualified special purpose entities, or the company is not the primary beneficiary. In addition, the specified assets in these VIEs related to the company's securitizations are not the only source of payment for specified liabilities or other interests of these VIEs and, therefore, do not require consolidation.

1.77

EASTMAN KODAK COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Kodak and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for joint ventures and investments in associated companies over which Kodak has significant influence, but does not have effective control. Significant influence is generally deemed to exist when the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Income and losses of investments accounted for using the equity method are reported in other income (charges), net, in the accompanying Consolidated Statement of Earnings.

The cost method of accounting is used for investments in equity securities that do not have a readily determined market value and when the Company does not have the ability to exercise significant influence. These investments are carried at cost and are adjusted only for other-than-temporary declines in fair value. The carrying value of these investments is reported in other long-term assets in the accompanying Consolidated Statement of Financial Position.

1.78

HERCULES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hercules, all majority-owned subsidiaries where control exists, any other subsidiaries which it controls and variable interest entities ("VIEs") in which Hercules is the primary beneficiary. All significant intercompany transactions and profits have been eliminated. Investments in affiliated companies, where Hercules has a 20% to 50% interest and where the entity is either not a VIE or Hercules is not the primary beneficiary, are accounted for using the equity method of accounting and, accordingly, consolidated income includes Hercules' share of their income. Subsidiaries of the Company (Hercules Trust I and Hercules Trust II) that were VIEs and with respect to which Hercules is not the primary beneficiary have been de-consolidated as of December 31, 2003. Hercules Trust I and Hercules Trust II were liquidated and dissolved in 2004.

6. Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB 51"). FIN 46 addresses the application of ARB 51 to variable interest entities ("VIEs"), and generally requires that assets, liabilities and results of the activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. On December 24, 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"). The Company elected to partially adopt FIN 46 in the quarter ending September 30, 2003 for its VIEs that existed prior to January 31, 2003 (the Company has no VIEs created subsequent to January 31, 2003). The financial statements for the years ended December 31, 2004 and 2003 reflect the consolidation of two joint venture VIEs, ES Fiber Visions Holdings A/S and ES Fiber Visions L.P., that were previously accounted for using the equity method of accounting. These entities serve as strategic global marketers of the Company's bicomponent fibers. As of December 31, 2004, the fair value of the assets in these joint ventures was approximately $8 million and the fair values of the associated liabilities and non-controlling interests were approximately $5 million. There are no assets of the Company that serve as collateral for the VIEs and the creditors of the VIEs have no recourse to the general credit of the Company.

1.79

THE WALT DISNEY COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions. In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivable sale transaction. In connection with this sale, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

Accounting Changes

FIN 46R

In December 2003, FASB issued FIN 46R which was generally effective as of March 31, 2004. Variable interest entities (VIEs) are primarily entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Company has minority equity interests in certain entities, including Euro Disney S.C.A. (Euro Disney) and Hongkong International Theme Parks Limited (Hong Kong Disneyland). In connection with the adoption of FIN 46R, the Company concluded that Euro Disney and Hong Kong Disneyland are VIEs and that we are the primary beneficiary. Pursuant to the transition provisions of FIN 46R, the Company began consolidating Euro Disney and Hong Kong Disneyland's balance sheets on March 31, 2004, the end of the Company's second quarter of fiscal year 2004 and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal year 2004. Under FIN 46R transition rules, the operating results of Euro Disney and Hong Kong Disneyland continued to be accounted for on the equity method for the six month period ended March 31, 2004. See Note 4 for the impact of consolidating the balance sheets, income statement and cash flow statements of Euro Disney and Hong Kong Disneyland.

We have concluded that the rest of our equity investments do not require consolidation as either they are not VIEs, or in the event that they are VIEs, we are not the primary beneficiary. The Company also has variable interests in certain other VIEs that will not be consolidated because the Company is not the primary beneficiary. These VIEs do not involve any material exposure to the Company.

Note 4 (In Part): Investments

Euro Disney and Hong Kong Disneyland

The Company has a 41% interest in Euro Disney S.C.A., which operates the Disneyland Resort Paris and a 43% interest in Hongkong International Theme Park Limited, which is responsible for constructing and operating Hong Kong Disneyland. As of March 31, 2004, the Company began accounting for Euro Disney and Hong Kong Disneyland as consolidated subsidiaries pursuant to FIN 46R (See Note 2). The Company began consolidating the balance sheets of Euro Disney and Hong Kong Disneyland as of March 31, 2004, and the income and cash flow statements beginning April 1, 2004.

The following table presents the condensed consolidating balance sheet of the Company, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland as of September 30, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 1,730	$ 312	$ 2,042
Other current assets	7,103	224	7,327
Total current assets	8,833	536	9,369
Investments	1,991	(699)	1,292
Fixed assets	12,529	3,953	16,482
Intangible assets	2,815	—	2,815
Goodwill	16,966	—	16,966
Other assets	6,843	135	6,978
Total assets	$49,977	$3,925	$53,902
Current portion of borrowings(1)	$ 1,872	$2,221	$ 4,093
Other current liabilities	6,349	617	6,966
Total current liabilities	8,221	2,838	11,059
Borrowings	8,850	545	9,395
Deferred income taxes	2,950	—	2,950
Other long term liabilities	3,394	225	3,619
Minority interests	487	311	798
Shareholders' equity	26,075	6	26,081
Total liabilities and shareholders' equity	$49,977	$3,925	$53,902

(1) All of Euro Disney's borrowings of $2.2 billion are classified as current as they are subject to acceleration if certain requirements of the MOA are not achieved as part of the current restructuring process as discussed below.

The following table presents the condensed consolidating income statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004.[1]

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 30,037	$ 715	$ 30,752
Cost and expenses	(26,053)	(651)	(26,704)
Restructuring and impairment charges	(64)	—	(64)
Net interest expense	(575)	(42)	(617)
Equity in the income of investees	398	(26)	372
Income before income taxes and minority interests	3,743	(4)	3,739
Income taxes	(1,199)	2	(1,197)
Minority interests	(199)	2	(197)
Net income	$ 2,345	$ —	$ 2,345

(1) Under FIN 46R transition rules, the operating results of Euro Disney and Hong Kong Disneyland are accounted for on the equity method for the six month period ended March 31, 2004.

The following table presents the condensed consolidating cash flow statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments[1]	Total
Cash provided by operations	$ 4,283	$ 87	$ 4,370
Investments in parks, resorts and other property	(1,138)	(289)	(1,427)
Other investing activities	(107)	50	(57)
Cash provided (used) by financing activities	(2,891)	190	(2,701)
Increase in cash and cash equivalents	147	38	185
Cash and cash equivalents, beginning of period	1,583	274	1,857
Cash and cash equivalents, end of period	$ 1,730	$ 312	$ 2,042

(1) Includes cash flow of Euro Disney and Hong Kong Disneyland for the six months ended September 30, 2004.

BUSINESS COMBINATIONS

1.80 SFAS No. 141, *Business Combinations*, issued in June 2001, supersedes APB Opinion No. 16, *Business Combinations*, as the authoritative pronouncement on business combinations. *SFAS No. 141* requires that the purchase method be used for all business combinations initiated after June 30, 2001. Paragraphs 51–58 set forth required disclosures for business combinations.

1.81 During 2004, 301 survey companies used the purchase method to account for a business combination.

1.82 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.

1.83

TABLE 1-10: BUSINESS COMBINATION DISCLOSURES

	2004	2003	2002	2001
Method of payment:				
Cash only	194	164	196	N/C*
Cash and stock	31	31	44	N/C*
Stock only	13	13	22	N/C*
Other—described	12	21	13	N/C*
Intangible assets not subject to amortization	184	156	167	61
Intangible assets subject to amortization	145	105	124	131
Preliminary allocation of acquisition cost	99	63	80	N/C*
Supplemental pro forma information	78	43	85	76
Contingent payments	51	31	29	16
Purchased research and development costs	27	25	25	21

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

Purchase Method

1.84

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions

On July 20, 2004, the Company acquired certain assets, properties and operations of Exclusively Misook, Inc. ("Misook"), a designer and marketer of upscale women's knit products sold through leading specialty and department stores. The acquisition of Misook is expected to provide for strategic growth opportunities in womenswear and further diversification of product categories.

The purchase price for Misook as of the acquisition date was $32.6 million. Additional cash purchase consideration will be due if Misook achieves certain specified financial performance targets over a five-year period commencing

August 1, 2004. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement, must be achieved during any of the periods in order for additional consideration to be paid. The additional consideration applicable to the four months ending November 30, 2004 was approximately $1.2 million, payable during the first quarter of fiscal 2005. At the minimum level of performance (annualized operating earnings, as defined, of at least $12 million), additional annual consideration of $3.6 million would be paid applicable to the five year period following the acquisition. The amount of consideration increases with increased levels of earnings and there is no maximum amount of incremental purchase price.

If the Misook business is sold within five years of the acquisition date ("Sale Transaction"), the purchase agreement provides, at the option of the seller, for a lump sum payment covering the remaining earnout period based on the average annual contingent consideration earned prior to the date of the Sale Transaction.

The Misook acquisition is being accounted for under the purchase method of accounting. Accordingly, the results of Misook are included in the consolidated financial statements from the acquisition date. Misook's results of operations and assets are included in the Women's Apparel Group segment.

The Company has allocated the purchase price to the Misook assets acquired and liabilities assumed at estimated fair values, considering a number of factors, including the use of an independent appraisal. The excess of fair value of the net assets acquired compared to the amount paid as of the acquisition date has been reflected as "estimated amount due seller," in accordance with SFAS No. 141 ("Business Combinations"). Any contingent consideration payable in the future will be first applied to reduce the amount recorded as "estimated amount due seller," and thereafter to goodwill. This allocation is subject to revision; subsequent revisions, if any, are not expected to be material. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (000's omitted):

Cash consideration ($32,125 paid at closing; $491 paid in October)	$ 32,616
Direct acquisition costs	235
Total purchase price	$ 32,851
Allocation of purchase price:	
Accounts receivable	$ 6,715
Inventories	1,155
Other current assets	392
Intangible assets	36,150
Deferred taxes (related to minimum pension liability)	568
Property, plant and equipment	58
Other assets	48
Current liabilities	(428)
Estimated amount due seller	(10,455)
Minimum pension liability	(1,352)
Total purchase price	$ 32,851

Of the amount shown above as estimated amount due seller, $1,203 is included in accounts payable in the accompanying Consolidated Balance Sheet and the remainder is included in non-current liabilities.

The components of the Intangible Assets listed in the above table as of the acquisition date utilized an independent third party appraisal and are as follows (000's omitted):

	Amount	Life
Tradename	$28,400	Indefinite
Customer relationships	3,000	10 years
Supply agreement	4,400	5 years
Covenant not to compete	350	4 years
	$36,150	

The tradename was deemed to have an indefinite life and, accordingly, is not being amortized, but will be subject to periodic impairment testing at future periods in accordance with SFAS No. 142 ("Goodwill and Other Intangible Assets"). The customer relationships and covenant not to compete are being amortized based on estimated weighted cash flows over their life. The supply agreement is being amortized on a straight line basis over the life of the agreement.

The Misook acquisition was financed utilizing borrowing availability under the Company's Credit Facility.

The following unaudited pro forma information is provided for the acquisition assuming it occurred as of December 1, 2001 (in millions, except per share amounts):

	2004	2003	2002
Net sales	$612.2	$600.5	$612.5
Net earnings before taxes	35.6	25.3	14.2
Net earnings	21.8	15.3	8.6
Net earnings per share:			
Basic	.62	.46	.27
Diluted	.60	.44	.26

The pro forma amounts above reflect interest on the purchase price, assuming the acquisition occurred as of December 1, 2001, with interest calculated at the Company's borrowing rate under its credit facility for the respective period. The pro forma net earnings above assumes an income tax provision at the Company's consolidated tax rate for the respective year. The information presented above is for illustrative purposes only and is not indicative of results that would have been achieved if the acquisition had occurred as of the beginning of the Company's 2004, 2003 and 2002 fiscal years or of future operating performance.

Regarding the 2001 acquisition of the Consolidated Apparel Group, there will be no additional contingent consideration which can be earned by the former owners subsequent to November 30, 2004, pursuant to a November 2004 amendment to the purchase agreement.

1.85

R.R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions, except per share data and unless otherwise indicated)

Note 2. Acquisitions

On February 27, 2004, the Company acquired all of the outstanding shares of Moore Wallace in exchange for consideration of 0.63 shares of the Company's common stock for each outstanding common share of Moore Wallace. The aggregate consideration to the Moore Wallace shareholders was comprised of 102.1 million shares of common stock of the Company with a fair value of $2,804.9 million. The fair value of the Company's shares was based upon the actual number of shares issued to the Moore Wallace shareholders using the average closing trading price of the Company's common stock on the New York Stock Exchange during a five-day trading period beginning two trading days prior to the announcement of the combination agreement on November 8, 2003. The total purchase price of $2,758.0 million, net of cash acquired of $85.4 million, also included $21.6 million for the conversion of employee stock awards and direct acquisition costs of $16.9 million (which exclude debt issuance costs) through December 31, 2004.

The Acquisition was recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at the Acquisition Date. The excess of the cost of the Acquisition over the net of amounts assigned to the fair value of the assets acquired and the liabilities assumed is recorded as goodwill. The valuation of assets and liabilities has been determined and the purchase price has been allocated as follows:

Accounts receivable	$ 656.6
Inventory and customer backlog	323.8
Other current assets	37.0
Property, plant and equipment and other long-term assets	834.4
Amoritizable intangible assets and indefinite-lived intangible assets	703.1
Goodwill	2,309.1
Accounts payable and accrued liabilities	(670.1)
Short-term and long-term debt	(966.2)
Postretiremen and pension benefits and other long-term liabilities	(311.7)
Deferred taxes—net	(158.0)
Total purchase price—net of cash acquired	$2,758.0

Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of the Company and Moore Wallace as if the Acquisition had occurred at January 1, 2004 and 2003. The historical results of the Company for 2004 include the results of Moore Wallace from the Acquisition Date. The pro forma results presented below for 2004 combine the results of the Company for 2004 and the historical results of Moore Wallace from January 1, 2004 through February 26, 2004. The pro forma results for 2003 combine the historical results of the Company for 2003 with the combined historical results for 2003 of Moore Wallace and Wallace Computer Services Inc. ("Wallace"), which was acquired by Moore Wallace on May 15, 2003. Management believes that a more meaningful prior period comparison results from the inclusion of the results of Wallace from January 1, 2003 in the pro forma results for 2003 due to the significance of the Wallace acquisition. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had the Acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the Company's statutory tax rate.

	2004	2003
Net sales	$7,680.7	$7,390.6
Net earnings before cumulative effect of change in accounting principle	163.4	267.4
Net earnings	156.8	267.4
Earnings per share:		
Basic:		
Net earnings before cumulative effect of change in accounting principle	$ 0.75	$ 1.24
Cumulative effect of change in accounting principle	0.03	—
Net earnings	$ 0.72	$ 1.24
Diluted:		
Net earnings before cumulative effect of change in accounting principle	$ 0.74	$ 1.23
Cumulative effect of change in accounting principle	0.03	—
Net earnings	$ 0.71	$ 1.23

The pro forma net earnings for 2004 and 2003 include $44.4 million for the amortization of purchased intangibles. The unaudited pro forma financial information also includes the following non-recurring charges: Acquisition-related charges for the fair market value adjustment for inventory and backlog and other transaction costs of $97.9 million and $66.9 million for 2004 and 2003, respectively; and net restructuring and impairment charges from continuing operations of $105.0 million and $26.0 million for 2004 and 2003. Also included for 2004 are impairment and other non-recurring charges related to discontinued operations of $109.2 million.

Other Acquisitions

On March 6, 2003, the Company acquired certain net assets of MLI for approximately $16.9 million in cash. MLI operated sortation facilities and a dedicated fleet of vehicles to provide package distribution services. The purchase price was allocated based on estimated fair values at the date of acquisition and resulted in $16.0 million of goodwill. Subsequently, the Company recorded an impairment charge in 2003 of $4.0 million for goodwill as a result of the annual impairment review. In 2004, the operations of MLI were shutdown.

Formation of Jointly Owned Companies

1.86

3COM CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Investment in Unconsolidated Joint Venture

On November 17, 2003, 3Com 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 centers in Hangzhou and Beijing, China. At the time of formation, 3Com contributed cash of $160.0 million, assets related to its operations in China and Japan with a carrying value of $0.1 million, and licenses related to certain intellectual property in exchange for 49 percent of the outstanding common shares of H-3C. 3Com recorded its initial investment in H-3C at $160.1 million, reflecting 3Com's carrying value for the assets contributed in exchange for the common shares received. Huawei contributed assets valued at $178.2 million in exchange for a 51 percent ownership interest; Huawei's contributed assets included 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. Two years after formation of H-3C, 3Com has the one-time option to purchase an additional two percent ownership interest from Huawei for an amount not to exceed $28 million. Three years after formation of H-3C, 3Com and Huawei each have the right to purchase all of the other partner's ownership interest through a bid process.

3Com accounts for its investment in H-3C by the equity method. Under this method, 3Com records its proportionate share of H-3C's net income or loss based on the most recently available quarterly financial statements of H-3C. Since H-3C has adopted a calendar year basis of reporting, 3Com has reported its equity in H-3C's net loss for H-3C's fiscal period from the date of formation (November 17, 2003) through March 31, 2004 in 3Com's results of operations for fiscal 2004. 3Com's proportionate share of the reported loss from operations for the period from the date of formation to March 31, 2004 was $4.6 million, and is included in 3Com's results of operations for fiscal 2004 under the caption "Equity interest in loss of unconsolidated joint venture." Also, at the time of formation of H-3C, 3Com recorded a charge of $12.6 million representing 3Com's ownership share (49 percent) of the value attributed to in-process technology contributed to H-3C by Huawei that had not yet reached technological feasibility and had no alternative future use. This charge also was included in 3Com's results of operations for fiscal 2004 under the caption "Equity interest in loss of unconsolidated joint venture." For fiscal 2004, 3Com's total reported loss related to H-3C was $17.2 million. Prospectively, 3Com will continue to report its 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, 2004, and as of the date of its formation on November 17, 2003 were as follows (in thousands):

	March 31, 2004	November 17, 2003
Current assets	$242,904	$160,000
Non-current assets	199,605	204,088
Current liabilities	86,825	—
Sales	61,508	—
Gross margin	23,182	—
Net loss	34,086	—

In determining 3Com's share of the net loss of H-3C for the fiscal period ended March 31, 2004, certain adjustments were made to H-3C's financial statements. These adjustments included the deferral of profit for products sold to 3Com that remained in 3Com's inventory as of the end of March 31, 2004, as well as the elimination of expense for the amortization of intangible assets that 3Com contributed to H-3C at the time of formation. After such adjustments, 3Com recorded a loss of $4.6 million as its share of H-3C's net loss for H-3C's fiscal period from the date of formation through March 31, 2004; this loss is included in 3Com's results of operations for fiscal 2004 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 from 3Com to H-3C as well as from H-3C to 3Com. In addition, 3Com provides certain services to H-3C related to warranty for its products sold to H-3C, as well as information technology services. During fiscal 2004, 3Com recorded sales to H-3C of approximately $6.4 million and made purchases of approximately $9.7 million. As of May 28, 2004, 3Com had deferred approximately $1.1 million of sales made to H-3C that had not yet been shipped to H3-C's end customer. Also, as of May 28, 2004, 3Com had trade receivables and payables with H-3C of approximately $2.1 million and $2.7 million, respectively, which are included in the captions "Accounts receivable" and "Accounts payable," respectively, in the accompanying consolidated balance sheet. Also, as of May 28, 2004, 3Com 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.

CONTINGENCIES

1.87 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 2004, 367 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.

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

1.89

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	2004	2003	2002	2001
Loss Contingencies				
Litigation	511	506	514	461
Environmental	213	245	261	249
Insurance	112	122	116	76
Possible tax assessments	112	76	54	44
Government investigations	99	94	96	61
Other—described	38	49	76	69
Gain Contingencies				
Operating loss carryforward	438	416	390	350
Tax credits and other tax credit carryforwards	215	178	166	128
Capital loss carryforward	78	66	56	29
Alternative minimum tax carryforward	71	69	70	79
Plaintiff litigation	33	37	41	25
Investment credit carryforward	15	18	21	23
Other—described	15	10	17	6

LOSS CONTINGENCIES

Litigation

1.90

TRIBUNE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Newsday *and* Hoy, *New York Charge*

On Feb. 11, 2004, a purported class action lawsuit was filed in New York Federal Court by certain advertisers of *Newsday* and *Hoy*, New York, alleging that they were overcharged for advertising as a result of inflated circulation numbers at these two publications. The purported class action also alleges that entities that paid a *Newsday* subsidiary to deliver advertising flyers were overcharged. On July 21, 2004, another lawsuit was filed in New York Federal Court by certain advertisers of *Newsday* alleging damages resulting from inflated *Newsday* circulation numbers as well as federal and state antitrust violations. On Oct. 8, 2004, a third lawsuit was filed in New York State Court by a former *Newsday* advertiser alleging damages resulting from inflated *Newsday* circulation numbers. The Oct. 8, 2004 lawsuit has been settled and the Company intends to vigorously defend the other two suits.

On June 17, 2004, the Company publicly disclosed that it would reduce its reported circulation for both *Newsday* and *Hoy*, New York, for the 12-month period ending Sept. 30, 2003 and the six-month period ending March 31, 2004. The circulation adjustments were the result of a review of reported circulation at *Newsday* and *Hoy*, New York, conducted by the Company's internal audit staff and the Audit Bureau of Circulations ("ABC"). Subsequent to the June 17th disclosure, the Company continued its internal review and found additional misstatements for these time periods, as well as misstatements that impacted the 12-month period ending Sept. 30, 2002. On Sept. 10, 2004, the Company announced additional revisions to the circulation figures for *Newsday* and *Hoy*, New York, for the 12-month period ending Sept. 30, 2003 and the six-month period ending March 31, 2004. In November 2004, ABC released its audit reports for *Newsday* and *Hoy*, New York, for the 12-month period ending Sept. 30, 2003. ABC's circulation audits at *Newsday* and *Hoy*, New York, for the six-month periods ending March 31, 2004 and Sept. 30, 2004 are ongoing.

On July 12, 2004, ABC announced that it was censuring *Newsday* and *Hoy*, New York, for improper circulation practices. As part of the censure, ABC will be auditing *Newsday* and *Hoy*, New York, every six months, instead of annually, through the six-month period ending Sept. 30, 2005. In addition, *Newsday* and *Hoy*, New York, will not be able to publish their six-month circulation statistics prior to the completion of the ABC audits for the six-months ending March 31, 2005. Finally, *Newsday* and *Hoy*, New York, were required to submit a plan to ABC for correcting their circulation practices. The Company submitted the corrective plan to ABC in October 2004 and has been working with ABC to fully comply with the terms of the censure.

As a result of misstatements of reported circulation at *Newsday* and *Hoy*, New York, the Company recorded a pretax charge of $35 million in the second quarter of 2004 as its estimate of the probable cost to settle with advertisers based upon facts available at July 30, 2004, the date of the Company's second quarter 2004 Form 10-Q filing. Since that date, the Company found additional circulation misstatements, which increased the cost to settle with advertisers. As a result, the Company recorded an additional pretax charge of $55 million in the third quarter of 2004 to increase the estimate of the probable cost to settle with *Newsday* and *Hoy*, New York, advertisers to a total of $90 million. The Company will continue to evaluate the adequacy of this charge on an ongoing basis.

A summary of the activity with respect to the *Newsday* and *Hoy*, New York, advertiser settlement accrual is as follows (in millions):

Accrual balance at Dec. 28, 2003	$ —
Provision	90
Payments	(41)
Accrual balance at Dec. 26, 2004	$ 49

The Securities and Exchange Commission, the United States Attorney for the Eastern District of New York and the Nassau County District Attorney are conducting inquiries into the circulation practices at *Newsday* and *Hoy*, New York. The Company is cooperating fully with these inquiries. At the date of this report, the Company cannot predict with certainty the outcome of these inquiries.

ABC's annual circulation audits at the Company's other newspapers are ongoing. In addition, during the third quarter of 2004, the Company's internal auditors began reviews of the circulation practices at all of the Company's other print publications. The internal audit reviews have been completed for all of the Company's paid daily newspapers. The reviews for *Chicago* magazine and other non-paid and weekly newspapers are expected to be completed during the first half of 2005. To date, the Company's internal reviews have found that circulation practices at the Company's other daily newspapers are sound and that no material adjustments are required to be made to previously reported circulation numbers.

Note 12 (In Part): Commitments and Contingencies

The Company and its subsidiaries are defendants from time to time in actions for matters arising out of their business operations. In addition, the Company and its subsidiaries are involved from time to time as parties in various regulatory, environmental and other proceedings with governmental authorities and administrative agencies. See Note 3 for a discussion of potential liability related to *Newsday* and *Hoy*, New York, and see Note 13 for a discussion of a potential income tax liability related to Times Mirror's 1998 dispositions of its Matthew Bender and Mosby subsidiaries in separate tax-free reorganizations. The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

1.91

UTSTARCOM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Commitments and Contingencies

Litigation

Securities Class Action Litigation

On October 26, 2004, an alleged former shareholder of the Company filed a class action complaint in the United States District Court for the District of Idaho against the Company and two of the Company's directors and/or officers, purporting to assert claims under the federal securities laws on behalf of a class of purchasers of the Company's publicly traded securities in the period from April 16, 2003 through September 20, 2004. Among other things, the complaint refers to the Company's disclosures as to "significant control deficiencies" related to revenue recognition and as to the deferral of revenue recognition on a particular transaction and the related lowering of the Company's financial guidance. The complaint further alleges that the defendants previously made positive statements regarding the Company's business and financial performance that were false and misleading because such statements, among other things, failed to disclose problems with the Company's internal controls and revenue recognition policies and procedures and failed to disclose that the revenue on the transaction at issue would need to be deferred, which allegedly caused the price of the Company's publicly traded securities to be artificially inflated. The complaint claims that the plaintiff and other class members were damaged as a result thereof, and seeks monetary recovery in their favor in an unspecified amount.

Four similar class action complaints were later filed in the United States District Court for the Northern District of California against the Company and several of the Company's directors and officers. In both the Idaho court and the California court, competing motions were filed for appointment of lead plaintiff and approval of lead plaintiffs' counsel, and in the California court various motions for consolidation of actions were filed as well. On March 15 and 16, 2005, the California court entered orders consolidating the cases pending in that court, appointing the lead plaintiff, and approving the lead plaintiff's counsel. Pursuant to those orders, a consolidated complaint is to be filed in that court within 60 days thereafter. On April 6, 2005, the Idaho court entered an order appointing the lead plaintiff and approving the lead plaintiff's counsel.

This class action litigation is in its preliminary stages, and the Company cannot predict its outcome, as the litigation process is inherently uncertain. However, the Company believes that the allegations and claims in this litigation are without merit and that the Company has valid defenses, and intends to contest such allegations and claims and defend itself vigorously. As of December 31, 2004, no loss amount has been accrued because a loss is not considered probable or estimable.

Shareholder Derivative Litigation

On August 31 and September 2, 2004, respectively, two shareholder derivative actions were filed in the Superior Court of California, Alameda County, by alleged shareholders of the Company purporting to assert, on its behalf, claims of breach of fiduciary duty against certain of its current and former directors and officers, and also naming the Company as a nominal defendant. The complaints in these actions refer to the Company's disclosures as to an Audit Committee investigation into revenue recognition issues and as to "significant control deficiencies" related to revenue recognition. The complaints further allege that the individual defendants ignored problems with the Company's accounting and internal control practices and procedures and breached their fiduciary duties by failing to maintain adequate internal accounting controls or to make good faith efforts to do so. Plaintiffs claim that such alleged breaches damaged the Company, and they seek monetary recovery against the individual defendants and in favor of the Company, as well as equitable relief. In addition, plaintiffs claim that they should be excused from pre-suit demand requirements based on allegations that the Company's Board of Directors could not have fairly evaluated such pre-suit demand, and thus that such demand would have been futile. On November 22, 2004, the Court entered an order consolidating the two actions and appointing lead plaintiffs' counsel.

On November 23 and December 2, 2004, two related shareholder derivative actions were filed in the same court. On January 13, 2005, the Court consolidated these two newer cases with the previously consolidated actions, and directed plaintiffs to prepare and file an amended consolidated complaint, which plaintiffs filed on January 31, 2005. On March 17, 2005, the Company filed a motion, joined by other defendants', seeking dismissal of the consolidated complaint for failure to adequately plead futility of the pre-suit demand.

This derivative litigation is in its preliminary stages, and the Company cannot predict its outcome, as the litigation process is inherently uncertain. However, the Company believes that plaintiffs' allegations of "demand futility" are without merit, and the Company intends to contest those allegations vigorously. As of December 31, 2004, no loss amount has been accrued because a loss is not considered probable or estimable.

IPO Allocation

On October 31, 2001, a complaint was filed in United States District Court for the Southern District of New York against the Company, some of its directors and officers and various underwriters for the Company's initial public offering. Substantially similar actions were filed concerning the initial public offerings for more than 300 different issuers, and the cases were coordinated as In re Initial Public Offering Securities Litigation, 21 MC 92. In April 2002, a consolidated amended complaint was filed in the matter against the Company, captioned In re UTStarcom, Initial Public Offering Securities Litigation, Civil Action No. 01-CV-9604. Plaintiffs allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 through undisclosed improper underwriting practices concerning the allocation of IPO shares in exchange for excessive brokerage commissions, agreements to purchase shares at higher prices in the aftermarket and misleading analyst reports. Plaintiffs seek unspecified damages on behalf of a purported class of purchasers of the Company's common stock between March 2, 2000 and December 6, 2000. The Company's directors and officers have been dismissed without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part a motion to dismiss brought by defendants including the Company. The order dismisses all claims against the Company except for a claim brought under Section 11 of the Securities Act of 1933, which alleges that the registration statement filed in accordance with the IPO was misleading. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the court for approval. The terms of the settlement, if approved, would dismiss and release all claims against the participating defendants (including the Company). In exchange for this dismissal, D & O insurance carriers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1 billion, and the issuer defendants would agree to an assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. The settlement is subject to a number of conditions, including court approval. If the settlement does not occur, and litigation against the Company continues, the Company believes it has valid defenses and intends to defend the case vigorously. The total amount of the loss associated with the above litigation is not determinable at this time. Therefore the Company is unable to currently estimate the loss, if any, associated with the litigation.

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 Company's patent through the manufacture, use, offer for sale, and sale of Starent's ST-16 Intelligent Mobile Gateway. The Company seeks, 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 and scheduled a hearing to construe the claims of the patent-in-suit for June 30, 2005. At that time the Court will hold an additional case management conference to schedule a date for trial. 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. A hearing on the Company's motion is set for May 11, 2005. The Company cannot reliably predict the outcome of this litigation.

Fenner Investments Patent Infringement Litigation

On January 6, 2005, Fenner Investments, Ltd. filed suit against the Company and co-defendants Juniper Networks, Inc., Nokia, Inc., Nortel Networks Corp., Lucent Technologies, Inc., and Cisco Systems, Inc. in the U.S. District Court for the Eastern District of Texas. The suit alleges that unspecified products and services infringe two Fenner patents and seeks compensatory and injunctive relief. On March 1, 2005, the Company filed a motion to dismiss the complaint due to improper venue; no hearing is yet scheduled for this motion. This lawsuit is in its initial stage and it is not possible to reliably predict the outcome or any relief that could be awarded, as the litigation process is inherently uncertain. Therefore, the Company is unable to currently estimate the loss, if any, associated with the litigation. The Company intends to contest the allegations and claims and defend itself vigorously.

Other

On August 19, 2004, the Company received a letter from the new management team of Hyundai Syscomm, Inc. ("HSI") stating that they consider the Asset Purchase Agreement, dated as of February 26, 2004, among HSI, UTSI, Dr. Seong-Ik Jang and 3R Inc. (the "APA"), and the various ancillary agreements entered into in connection with the closing related to the APA on April 27, 2004, to be null and void due to unfulfillment of condition precedents and material breach of terms of such agreements. Such condition precedents and material breach of terms were not specified in such letter from HSI. In addition, HSI has made allegations and arguments before Korean governmental agencies and to the Korean press alleging that the technology that was purchased by the Company pursuant to the APA has been exported outside of Korea. The Company believes none of such technology has been exported by the Company from Korea to any foreign country. In addition, the Company believes that the Company has materially complied with all provisions of the APA and the ancillary agreements and HSI cannot void or nullify such agreements. The Company has taken, and will continue to take, appropriate legal actions to fully enforce its rights under the APA and the ancillary agreements.

The Company is a party to other litigation matters and claims that are normal in the course of operations, and while the results of such litigation matters and claims cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse impact on its financial position or results of operations.

Environmental Matters

1.92

EL PASO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Costs and Other Contingencies

We record liabilities when our environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. We recognize a current period expense for the liability when clean-up efforts do not benefit future periods. We capitalize costs that benefit more than one accounting period, except in instances where separate agreements or legal or regulatory guidelines dictate otherwise. Estimates of our liabilities are based on currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of other societal and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediating contaminated sites, other companies' clean-up experience and data released by the EPA or other organizations. These estimates are subject to revision in future periods based on actual costs or new circumstances and are included in our balance sheet in other current and long-term liabilities at their undiscounted amounts. We evaluate recoveries from insurance coverage or government sponsored programs separately from our liability and, when recovery is assured, we record and report an asset separately from the associated liability in our financial statements.

We recognize liabilities for other contingencies when we have an exposure that, when fully analyzed, indicates it is both probable that an asset has been impaired or that a liability has been incurred and the amount of impairment or loss can be reasonably estimated. Funds spent to remedy these contingencies are charged against a reserve, if one exists, or expensed. When a range of probable loss can be estimated, we accrue the most likely amount or at least the minimum of the range of probable loss.

17 (In Part): Commitments and Contingencies

Environmental Matters

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. As of December 31, 2004, we had accrued approximately $380 million, including approximately $373 million for expected remediation costs and associated onsite, offsite and groundwater technical studies, and approximately $7 million for related environmental legal costs, which we anticipate incurring through 2027. Of the $380 million accrual, $100 million was reserved for facilities we currently operate, and $280 million was reserved for non-operating sites (facilities that are shut down or have been sold) and Superfund sites.

Our reserve estimates range from approximately $380 million to approximately $547 million. Our accrual represents a combination of two estimation methodologies. First, where the most likely outcome can be reasonably estimated, that cost has been accrued ($82 million). Second, where the most likely outcome cannot be estimated, a range of costs is established ($298 million to $465 million) and if no one amount in that range is more likely than any other, the lower end of the expected range has been accrued. By type of site, our reserves are based on the following estimates of reasonably possible outcomes.

(In millions)	Expected	High
Operating	$100	$111
Non-operating	249	384
Superfund	31	52
Total	$380	$547

Below is a reconciliation of our accrued liability from January 1, 2004, to December 31, 2004 (in millions):

Balance as of January 1, 2004	$412
Additions/adjustments for remediation activities	17
Payments for remediation activities	(51)
Other changes, net	2
Balance as of December 31, 2004	$380

For 2005, we estimate that our total remediation expenditures will be approximately $64 million. In addition, we expect to make capital expenditures for environmental matters of approximately $62 million in the aggregate for the years 2005 through 2009. These expenditures primarily relate to compliance with clean air regulations.

Internal PCB Remediation Project

Since 1988, TGP, our subsidiary, has been engaged in an internal project to identify and address the presence of polychlorinated biphenyls (PCBs) and other substances, including those on the EPA List of Hazardous Substances (HSL), at compressor stations and other facilities, it operates. While conducting this project. TGP has been in frequent contact with federal and state regulatory agencies, both through informal negotiation and formal entry of consent orders. TGP executed a consent order in 1994 with the EPA, governing the remediation of the relevant compressor stations, and is working with the EPA and the relevant states regarding those remediation activities. TGP is also working with the Pennsylvania and New York environmental agencies regarding remediation and post-remediation activities at its Pennsylvania and New York stations.

PCB Cost Recoveries

In May 1995, following negotiations with its customers, TGP filed an agreement with the FERC that established a mechanism for recovering a substantial portion of the environmental costs identified in its internal remediation project. The agreement, which was approved by the FERC in November 1995, provided for a PCB surcharge on firm and interruptible customers' rates to pay for eligible remediation costs, with these surcharges to be collected over a defined collection period. TGP has received approval from the FERC to extend the collection period, which is now currently set to expire in June 2006. The agreement also provided for bi-annual audits of eligible costs. As of December 31, 2004, TGP had pre-collected PCB costs by approximately $125 million. This pre-collected amount will be reduced by future eligible costs incurred for the remainder of the remediation project. To the extent actual eligible expenditures are less than the amounts pre-collected, TGP will refund to its customers the difference, plus carrying charges incurred up to the date of the refunds. As of December 31, 2004, TGP has recorded a regulatory liability (included in other non-current liabilities on its balance sheet) of $97 million for estimated future refund obligations.

CERCLA Matters

We have received notice that we could be designated, or have been asked for information to determine whether we could be designated as a Potentially Responsible Party (PRP) with respect to 61 active sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or state equivalents. We have sought to resolve our liability as a PRP at these sites through indemnification by third-parties and settlements which provide for payment of our allocable share of remediation costs. As of December 31, 2004, we have estimated our share of the remediation costs at these sites to be between $31 million and $52 million. Since the clean-up costs are estimates and are subject to revision as more information becomes available about the extent of remediation required, and because in some cases we have asserted a defense to any liability, our estimates could change. Moreover, liability under the federal CERCLA statute is joint and several, meaning that we could be required to pay in excess of our pro rata share of remediation costs. Our understanding of the financial strength of other PRPs has been considered, where appropriate, in estimating our liabilities. Accruals for these issues are included in the previously indicated estimates for Superfund sites.

It is possible that new information or future developments could require us to reassess our potential exposure related to environmental matters. We may incur significant costs and liabilities in order to comply with existing environmental laws and regulations. It is also possible that other developments, such as increasingly strict environmental laws and regulations and claims for damages to property, employees, other persons and the environment resulting from our current or past operations, could result in substantial costs and liabilities in the future. As this information becomes available, or other relevant developments occur, we will adjust our accrual amounts accordingly. While there are still uncertainties relating to the ultimate costs we may incur, based upon our evaluation and experience to date, we believe our current environmental reserves are adequate.

1.93

THE WILLIAMS COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Contingent Liabilities and Commitments

Environmental Matters

Continuing Operations

Since 1989, our Transco subsidiary has had studies underway to test certain of its facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transco has responded to data requests from the U.S. Environmental Protection Agency (EPA) and state agencies regarding such potential contamination of certain of its sites. Transco has identified polychlorinated biphenyl (PCB) contamination in compressor systems, soils and related properties at certain compressor station sites. Transco has also been involved in negotiations with the EPA and state agencies to develop screening, sampling and cleanup programs. In addition, Transco commenced negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 2004, Transco had accrued liabilities of $23 million related to PCB contamination, potential mercury contamination, and other toxic and hazardous substances.

We also accrued environmental remediation costs for our natural gas gathering and processing facilities, primarily related to soil and groundwater contamination: At December 31, 2004, we had accrued liabilities totaling approximately $8 million for these costs.

Actual costs incurred for these matters will depend on the actual number of contaminated sites identified, the amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors.

In August 2004, the New Mexico Environment Department (NMED) issued a Notice of Violation (NOV) to one of our subsidiaries, Williams Field Services Company (WFS), alleging various air permit violations primarily related to WFS's alleged failure to control volatile organic compound emissions from three conventional dehydrators in 2001. The NOV specified that the maximum statutory penalty for such violations is approximately $13.7 million. NMED and WFS are negotiating a possible resolution to this matter and WFS anticipates that any proposed penalty will be significantly lower than the maximum statutory amount. Additionally, in August 2004, WFS discovered and self-disclosed to the NMED that WFS was out of compliance with certain requirements of the operating permit issued under Title V of the Clean Air Act Amendments of 1990 at the Kutz gas processing plant. NMED and WFS are also negotiating a possible resolution to this matter.

Former Operations, Including Operations Classified as Discontinued

In connection with the sale of certain assets and businesses, we have retained responsibility, through indemnification of the purchasers, for environmental and other liabilities existing at the time the sale was consummated, as described below.

Agrico

In connection with the 1987 sale of the assets of Agrico Chemical Company, we agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations to the extent such costs exceed a specified amount. At December 31, 2004, we had accrued liabilities of approximately $11 million for such excess costs.

We are also in discussions with defendants involved in two class action damages lawsuits involving this former chemical fertilizer business. Settlement among those defendants was judicially approved in October 2004. We were not a named defendant in the settled lawsuits, but have contractual obligations to participate with the named defendants in the ongoing environmental remediation. One defendant has filed a Motion to Compel us to participate in arbitration regarding the contractual obligations. A hearing was held on that Motion on September 2, 2004 and the judge ordered the Motion to Compel and subsequent issues severed from the class action. On November 3, 2004, we removed the severed case to the United States District Court in the Northern District of Florida in Pensacola. Agrico filed its motion to remand on November 22, 2004. We then filed a Motion to Dismiss on January 21, 2005. A hearing on the Motion to Remand is set for March 23, 2005.

Williams Energy Partners

As part of our June 17, 2003 sale of Williams Energy Partners, we provided certain environmental indemnities to the purchaser. On May 26, 2004, the parties reached an agreement for buyout of certain indemnities in the form of a structured cash settlement. The agreement releases us from essentially all environmental indemnity obligations under the June 2003 sale of Williams Energy Partners and two related agreements. The agreement also transferred most third party litigation matters related to Williams Energy Partners' assets to the purchaser.

Other

At December 31, 2004, we had accrued environmental liabilities totaling approximately $30 million related primarily to our:

- potential indemnification obligations to purchasers of our former retail petroleum and refining operations;
- former propane marketing operations, bio-energy facilities, petroleum products and natural gas pipelines;
- discontinued petroleum refining facilities; and
- exploration and production and mining operations.

These costs include (1) certain conditions at specified locations related primarily to soil and groundwater contamination and (2) any penalty assessed on Williams Refining & Marketing, LLC (Williams Refining) associated with noncompliance with EPA's benzene waste "NESHAP" regulations. In 2002, Williams Refining submitted to the EPA a self-disclosure letter indicating noncompliance with those regulations. This unintentional noncompliance had occurred due to a regulatory interpretation that resulted in under-counting the total annual benzene level at Williams Refining's Memphis refinery. Also in 2002, the EPA conducted an all-media audit of the Memphis refinery. On August 25, 2004, Williams Refining and its new owner met with the EPA and the DOJ to discuss alleged violations and proposed penalties due to noncompliance issues identified in the multi-media report, including the benzene NESHAP issue. Discussion between the EPA, the DOJ and Williams Refining to resolve the allegations of noncompliance are ongoing. In connection with the sale of the Memphis refinery in March 2003, there are certain indemnification obligations to the purchaser.

We were a plaintiff in litigation involving the environmental investigation and subsequent cleanup of the Augusta refinery. In April 2004, we received a court order to participate in mediation before the end of June with the defendant to attempt to reach a settlement prior to going to trial. The litigation has been resolved and Williams Petroleum Services, LLC has accrued additional amounts of $11.8 million for completion of the work under the current Administrative Order on Consent and reasonably anticipated remediation costs. Accruals may be adjusted as more information from the site investigation becomes available.

Certain of our subsidiaries have been identified as potentially responsible parties at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other hazardous materials removal or remediation obligations under environmental laws.

Summary of Environmental Matters

Actual costs incurred for these matters could be substantially greater than amounts accrued depending on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors.

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Summary

Litigation, arbitration, regulatory matters and environmental matters are subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations in the period in which the ruling occurs. Management, including internal counsel, currently believes that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will not have a materially adverse effect upon our future financial position.

Insurance Coverage/Self-Insurance

1.94

ARKANSAS BEST CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Accounting Policies

Claims Liabilities

The Company is self-insured up to certain limits for workers' compensation, certain third-party casualty claims and cargo loss and damage claims. Above these limits, the Company has purchased insurance coverage, which management considers to be adequate. The Company records an estimate of its liability for self-insured workers' compensation and third-party casualty claims, which includes the incurred claim amount plus an estimate of future claim development calculated by applying the Company's historical claims development factors to its incurred claims amounts. The Company's liability also includes an estimate of incurred, but not reported, claims. Netted against this liability are amounts the Company expects to recover from insurance carriers and insurance pool arrangements. The Company records an estimate of its potential self-insured cargo loss and damage claims by estimating the amount of potential claims based on the Company's historical trends and certain event-specific information. The Company's claims liabilities have not been discounted.

Insurance-Related Assessments

The Company accounts for insurance-related assessments in accordance with Statement of Position No. 97-3 ("SOP 97-3"), *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*. The Company recorded estimated liabilities of $0.9 million at both December 31, 2004 and 2003 for state guaranty fund assessments and other insurance-related assessments. Management has estimated the amounts incurred, using the best available information about premiums and guaranty assessments by state. These amounts are expected to be paid within a period not to exceed one year. The liabilities recorded have not been discounted.

Note Q (In Part): Legal Proceedings and Environmental Matters and Other Events

Various legal actions, the majority of which arise in the normal course of business, are pending. The Company maintains liability insurance against certain risks arising out of the normal course of its business, subject to certain self-insured retention limits.

Note R: Excess Insurance Carriers

Reliance Insurance Company ("Reliance") was the Company's excess insurer for workers' compensation claims above $300,000 for the years 1993 through 1999. According to an Official Statement by the Pennsylvania Insurance Department on October 3, 2001, Reliance was determined to be insolvent. The Company has been in contact with and has received either written or verbal confirmation from a number of state guaranty funds that they will accept excess claims. For claims not accepted by state guaranty funds, the Company has continually maintained reserves for its estimated exposure to the Reliance liquidation since 2001. During the second quarter of 2004, the Company began receiving notices of rejection from the California Insurance Guarantee Association ("CIGA") on certain claims previously accepted by this guaranty fund. If these claims are not covered by the CIGA, they become part of the Company's exposure to the Reliance liquidation. As of December 31, 2004, the Company estimated its workers' compensation claims insured by Reliance to be approximately $8.6 million. Of the $8.6 million of insured Reliance claims, approximately $3.7 million have been accepted by state guaranty funds, leaving the Company with a net exposure amount of approximately $4.9 million. At December 31, 2004, the Company had reserved $4.2 million in its financial statements for its estimated exposure to Reliance. At December 31, 2003, the Company's reserve for Reliance exposure was $1.6 million. The Company's reserves are determined by reviewing the most recent financial information available for Reliance from the Pennsylvania Insurance Department. The Company anticipates receiving either full reimbursement from state guaranty funds or partial reimbursement through orderly liquidation; however, this process could take several years.

Kemper Insurance Companies ("Kemper") insured the Company's workers' compensation excess claims for the period from 2000 through 2001. In March 2003, Kemper announced that it was discontinuing its business of providing insurance coverage. Lumbermen's Mutual Casualty Company, the Kemper company which insures the Company's excess claims, received going-concern opinions on both its 2003 and 2002 statutory financial statements. The Company has not received any communications from Kemper regarding any changes in the handling of the Company's existing excess insurance coverage with Kemper. The Company is uncertain as to the future impact this will have on insurance coverage provided by Kemper to the Company during 2000 and 2001. The Company estimates its workers' compensation claims insured by Kemper to be approximately $1.9 million and $1.0 million, respectively, at December 31, 2004 and 2003. At December 31, 2004 and 2003, respectively, the Company had $0.2 million and $0.1 million of liability recorded in its financial statements for its potential exposure to Kemper, based upon Kemper's financial information available to the Company.

Possible Tax Assessments

1.95

GOODRICH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes

Income taxes are accounted for in accordance with FAS No. 109, "Accounting for Income Taxes," which requires that deferred taxes and liabilities are based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. The Company records interest on potential tax contingencies as a component of its tax expense and records the interest net of any applicable related tax benefit.

Note N (In Part): Income Taxes

In accordance with SFAS 5, the Company records tax contingencies when the exposure item becomes probable and reasonably estimable. As of January 1, 2004, the Company had tax contingency reserves of approximately $301.7 million. During 2004, the Company recorded a provision of $23.2 million (net of favorable adjustments for state and foreign settlements and other miscellaneous reserve adjustments) and made payments of $9.1 million. As of December 31, 2004, the Company has recorded tax contingency reserves of approximately $315.8 million. The contingencies that comprise the reserves are more fully described in Note X, "Contingencies."

Note X (In Part): Contingencies

Tax

In 2000, Coltec, the Company's former subsidiary, made a $113.7 million payment to the Internal Revenue Service (IRS) for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. The trial portion of the case was completed in May 2004. On November 2, 2004, the Company was notified that the trial court ruled in favor of Coltec and ordered the Government to refund federal tax payments of $82.8 million to Coltec. This tax refund will also bear interest to the date of payment. As of December 31, 2004, the interest amount was approximately $46.6 million before tax, or $30.3 million after tax. A final judgment was entered in this case by the U.S. Court of Federal Claims on February 15, 2005. The Government has until April 18, 2005 to appeal the decision to the United States Court of Appeals for the Federal Circuit. If the Government does not appeal the decision or the trial court judge's decision is ultimately upheld, the Company will be entitled to this tax refund and related interest pursuant to an agreement with Coltec, If the Company receives these amounts, it expects to record net income of approximately $145 million, based on interest through December 31, 2004, and including the release of previously established reserves. If the IRS were to appeal the judgment and ultimately prevail in this case, Coltec will not owe any additional interest or taxes with respect to 1996. The Company may, however, be required by the IRS to pay up to $32.7 million plus accrued interest with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. The amount of the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), the Company's subsidiary, was liable for $85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for $23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr has filed petitions in the U.S. Tax Court opposing the proposed assessments. Rohr expects that these cases may be scheduled for trial in 2005 and that it will ultimately be successful in these cases. At the time of settlement or final determination by the court, there will be a net cash cost to the Company due at least in part to the reversal of a timing item. The Company believes that its total net cash cost is unlikely to exceed $100 million. The Company is reserved for the estimated liability associated with these cases and as a result, it does not expect a charge to earnings to result from the resolution of these matters.

The Company is continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. In accordance with SFAS 109, "Accounting for Income Taxes," and SFAS 5, "Accounting for Contingencies," the Company establishes reserves for tax contingencies that reflect its best estimate of the deductions and credits that it may be unable to sustain, or that it could be willing to concede as part of a broader tax settlement. As of December 31, 2004, the Company has recorded tax contingency reserves of approximately $316 million.

The current IRS examination audit cycle began in March 2002 and relates to the following consolidated income tax groups for the following years:

Rohr, Inc. and Subsidiaries	July, 1995–December, 1997 (through date of acquisition)
Coltec Industries Inc and Subsidiaries	December, 1997–July, 1999 (through date of acquisition)
Goodrich Corporation and Subsidiaries	1998–1999 (including Rohr and Coltec)

There are numerous tax issues that have been raised during the examination by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation, amortization and the proper timing for certain other deductions for income tax purposes.

One of our subsidiaries, Rohr, Inc. (Rohr) has been under examination by the State of California for the tax years ending July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr's subsidiaries in connection with the lease of certain tangible property. California's State Board of Equalization has held that the deductions associated with the leased equipment were nonbusiness deductions, resulting in an additional tax assessment of approximately $5.5 million. The amount of interest on the tax assessment is approximately $23.5 million. The Company continues to contest the assessment. The Company is adequately reserved for this contingency.

1.96

XILINX, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Income Taxes

The IRS has audited and issued proposed adjustments to the Company for fiscal years 1996 through 2001. To date, several issues have been settled with the Appeals Office of the IRS. As of April 3, 2004, unresolved issues asserted by the IRS total $19.0 million in additional taxes due, including penalties and a reduction of future net operating losses of $31.2 million.

The Company filed a petition with the U.S. Tax Court on March 26, 2001, in response to assertions by the IRS that the Company owed additional tax for fiscal years 1996 through 1998. Several issues, including the arm's length royalty issue discussed below, have been settled with the Appeals Office of the IRS.

In October 2002, the IRS issued a notice of deficiency for fiscal year 1999. The notice of deficiency was based on issues that were also asserted in the previous notice of deficiency for fiscal years 1996 through 1998. On January 14, 2003, the Company filed a petition with the U.S. Tax Court in response to the October 2002 notice of deficiency.

In October 2003, the IRS issued a notice of deficiency for fiscal year 2000. The notice of deficiency was based on issues that were also asserted in the previous notices of deficiency for fiscal years 1996 through 1999. In addition, the

IRS disallowed a carryback of general business credits from fiscal year 2000 to fiscal year 1995. The Company filed a petition with the U.S. Tax Court on January 16, 2004, in response to the October 2003 notice of deficiency.

On April 6, 2004, Xilinx filed a settlement stipulation concerning the arm's length royalty for the license between the Company and Xilinx Ireland for fiscal years 1996 through 1999. On April 29, 2004, the Company filed a settlement stipulation concerning the arm's length royalty for the license between the Company and Xilinx Ireland for fiscal year 2000. The IRS agreed not to increase Xilinx's taxable income for this issue. The IRS had asserted increased taxable income of $242 million for fiscal years 1996 through 1999 and $57 million for fiscal year 2000.

One of the unresolved issues relates to whether the value of compensatory stock options must be included in the cost sharing agreement with Xilinx Ireland. The Company and the IRS filed cross motions for summary judgment in 2002 relating to this stock option cost sharing issue. In March 2003, the IRS changed its position concerning the treatment of stock options in cost sharing agreements. The IRS now excludes stock options granted prior to the beginning of the cost sharing agreement with Xilinx Ireland. The IRS change in position reduced the amount originally at issue on the treatment of stock options in cost sharing agreements, which was the subject of the summary judgment motions. On October 28, 2003, the Tax Court issued an order denying both Xilinx's and the IRS's cross motions for summary judgment on the stock option cost sharing issue. The order stated that evidence is necessary to establish whether the stock options are a cost related to research and development and to determine whether unrelated parties would share the cost of stock options in a cost sharing agreement. The Court has granted an IRS motion to amend its answer to assert an alternative deficiency based on the Black-Scholes value of stock options on grant. The trial for this issue has been set for July 14, 2004, and fiscal year 1999 has been combined with fiscal years 1997 to 1998.

Xilinx is in discussions with the Appeals Office to resolve and settle the remaining issues, other than the stock option cost sharing issue discussed above. It is premature to comment further on the likely outcome of any issues that have not been settled to date. The Company believes it has meritorious defenses to the remaining adjustments and sufficient taxes have been provided.

Note 13 (In Part): Contingencies

The Company filed petitions with the U.S. Tax Court on March 26, 2001 and January 14, 2003 in response to assertions by the IRS that the Company owed additional tax for fiscal years 1996 through 1999. The Company filed a petition with the U.S. Tax Court on January 16, 2004, in response to assertions by the IRS that the Company owes additional tax for fiscal year 2000 (see Note 11). Other than these petitions, Xilinx knows of no legal proceedings contemplated by any governmental authority or agency against the Company.

Governmental Investigations

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CHIQUITA BRANDS INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Litigation

In April 2003, the Company's management and audit committee, in consultation with the board of directors, voluntarily disclosed to the U.S. Department of Justice ("Justice Department") that the Company's banana-producing subsidiary in Colombia, which was sold in June 2004, had been forced to make "protection" payments to certain groups in that country which have been designated under United States law as foreign terrorist organizations. The Company's sole reason for submitting to these payment demands had been to protect its employees from the risks to their safety if the payments were not made. The voluntary disclosure to the Justice Department was made because the Company's management became aware that these groups had been designated as foreign terrorist organizations under a U.S. statute that makes it a crime to support such asn organization. The Company requested the Justice Department's guidance. Following the voluntary disclosure, the Justice Department undertook an investigation. The Company has cooperated with that investigation. In late March 2004, the Justice Department advised that, as part of the investigation, it will be evaluating the role and conduct of the Company and some of its officers in the matter. The Company intends to continue its cooperation with the investigation, but it cannot predict the outcome of the investigation or its possible adverse effect on the Company, which could include the imposition of fines.

In October 2004, the Company's Italian subsidiary received a notice of assessment from Customs authorities in Trento, Italy stating that this subsidiary and two individuals, including the subsidiary's former managing director, are jointly and severally liable for approximately €4.2 million. This amount represents additional duties on the import of certain bananas into the European Union from 1998 to 2000, plus related taxes and interest. The notice states that these amounts are due because these bananas were imported with licenses that were subsequently determined to have been forged. The Company intends to appeal the assessment, through appropriate proceedings, on the basis of its good faith belief at the time the import licenses were obtained and used that they were valid.

The Consolidated Balance Sheet at December 31, 2004 and 2003 does not reflect a liability for these contingencies.

1.98

MANPOWER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

14 (In Part): Contingencies

Litigation

We are involved in a number of lawsuits arising in the ordinary course of business which will not, in the opinion of management, have a material effect on our consolidated financial statements.

A search warrant was executed on November 30, 2004, at our French headquarters authorizing the French Regional Director on Inquiries of Competition to enter the office and review and obtain documents that may be pertinent to the investigation. According to the search warrant, the investigation stems from a complaint submitted during 2003 to the European Commission and subsequently transferred to France's Direction Generale de la Concurrence, de la Consommation et de la Repression des Fraudes. We understand that the purpose of the investigation is to search for evidence of price fixing and allocation of market share within the French market. The investigation is continuing, and we currently are not able to predict the outcome.

Guarantees

1.99

CENDANT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Changes in Accounting Policies During 2003 (In Part)

Guarantees

On January 1, 2003, the Company adopted FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," in its entirety. Such Interpretation elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of certain guarantees issued or modified after December 31, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee. The impact of adopting this Interpretation was not material to the Company's results of operations or financial position.

18 (In Part): Commitments and Contingencies

Standard Guarantees/Indemnifications

In the ordinary course of business, the Company enters into numerous agreements that contain standard guarantees and indemnities whereby the Company indemnifies another party for breaches of representations and warranties. In addition, many of these parties are also indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. Such guarantees or indemnifications are granted under various agreements, including those governing (i) purchases, sales or outsourcing of assets or businesses, (ii) leases of real estate, (iii) licensing of trademarks, (iv) development of timeshare properties, (v) access to credit facilities and use of derivatives, (vi) sales of mortgage loans, (vii) issuances of debt or equity securities, (viii) licensing of computer software and (ix) GDS subscriber services. The guarantees or indemnifications issued are for the benefit of the (i) buyers in sale agreements and sellers in purchase agreements, (ii) landlords in lease contracts, (iii) franchisees in a licensing agreements, (iv) developers in timeshare development agreements, (v) financial institutions in credit facility arrangements and derivative contracts, (vi) purchasers and insurers of the loans in sales of mortgage loans, (vii) underwriters in debt or equity security issuances and (viii) travel agents or other users in GDS subscriber services. While some of these guarantees extend only for the duration of the underlying agreement, many survive the expiration of the term of the agreement or extend into perpetuity (unless subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments that the Company could be required to make under these guarantees, nor is the Company able to develop an estimate of the maximum potential amount of future payments to be made under these guarantees as the triggering events are not subject to predictability. With respect to certain of the aforementioned guarantees, such as indemnifications of landlords against third party claims for the use of real estate property leased by the Company, the Company maintains insurance coverage that mitigates any potential payments to be made.

The Company also provides guarantees for the benefit of landlords in lease contracts where the lease was assigned to a third party due to the sale of a business which occupied the leased facility. These guarantees extend only the duration of the underlying lease contract. The maximum potential amount of future payments that the Company may be required to make under these guarantees is approximately $25 million in the aggregate. If the Company were required to make payments under these guarantees, it would have similar recourse against the tenant (third party to which the lease was assigned).

Other Guarantees

The Company's timeshare businesses provide guarantees to certain owners' associations for funds required to operate and maintain timeshare properties in excess of assessments collected from owners of the timeshare interests. The Company may be required to fund such excess as a result of unsold Company-owned timeshare interests or failure by owners to pay such assessments. These guarantees extend for the duration of the underlying service agreements (which approximate one year and are renewable on an annual basis) or until a stipulated percentage (typically 80% or higher) of related timeshare interests are sold. The maximum potential future payments that the Company could be required to make under these guarantees was approximately $170 million as of December 31, 2004. The Company would only be required to pay this maximum amount if none of the owners assessed paid their maintenance fees. Any fees collected from the owners of the timeshare interests would reduce the maximum potential amount of future payments to be made by the Company. Additionally, should the Company be required to fund the deficit through the payment of any owners' fees under these guarantees, the Company would be permitted access to the property for its own use and may use that property to engage in revenue producing activities, such as advertising or rental. Historically, the Company has not been required to make material payments under these guarantees as the fees collected from owners of timeshare interests have been sufficient to support the operation and maintenance of the timeshare properties. As of December 31, 2004, the liability recorded by the Company in connection with these guarantees was approximately $5 million.

The Company coordinates numerous events for its franchisees and thus reserves a number of venues with certain minimum guarantees, such as room rentals at hotels local to the conference center. However, such room rentals are paid by each individual franchisee. If the franchisees do not meet the minimum guarantees, the Company is obligated to fulfill the minimum guaranteed fees. These guarantees extend into 2008 and the maximum potential amount of future payments that the Company may be required to make under such guarantees is approximately $17 million. The Company would only be required to pay this maximum amount if none of the franchisees conducted their planned events at the reserved venues. Historically, the Company has not been required to make material payments under these guarantees. As of December 31, 2004, the liability recorded by the Company in connection with these guarantees was not significant.

GAIN CONTINGENCIES

Plaintiff Litigation

1.100

CORN PRODUCTS INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Mexican Tax on Beverages Sweetened with HFCS

On January 1, 2002, a discriminatory tax on beverages sweetened with high fructose corn syrup ("HFCS") approved by the Mexican Congress late in 2001, became effective. In response to the enactment of the tax, which at the time, effectively ended the use of HFCS for beverages in Mexico, the Company ceased production of HFCS 55 at its San Juan del Rio plant, one of its three plants in Mexico. Over time, the Company resumed production and sales of HFCS to certain beverage customers. These sales increased significantly beginning late in the third quarter of 2004 and are continuing; however, the tax remains in place.

The Company's ability to fully recover the carrying value of its long-term investment in Mexico, which consists primarily of goodwill and property, plant and equipment associated with the Mexican operations, is dependent upon the generation of sufficient cash flows from the use or disposition of these assets. Based on long-term forecasts of operating results, including the assumptions described below, the Company believes that it will generate sufficient cash flows from these long-term assets to fully recover their carrying values, and accordingly, no impairment of either goodwill or other long-term assets related to Mexico was recognized as of December 31, 2004.

In developing the estimates of the cash flows expected to be generated from the Mexican operations, the Company has assumed that shipments of HFCS to the Mexican beverage industry will reach levels, beginning in 2005, that will be significantly higher than the actual results from each of the three previous years. Under these assumptions, the estimated fair value of the Company's Mexican business would exceed its carrying amount. These assumptions are supported by the following significant external events:

- During the third and fourth quarters of 2004, the Company increased production and sales of HFCS to certain Mexican beverage customers which have continued through February 2005. These customers have obtained court rulings which have exempted them from paying the tax.
- There has been a sugar shortage in Mexico caused in part by the tax.
- The United States government filed a complaint with the World Trade Organization accusing Mexico of imposing unfair taxes on beverages sweetened with HFCS.
- At differing times, meetings have been conducted between various representatives of United States sugar and HFCS producers, corn growers, and the Mexican sugar industry in an ongoing attempt to work out a solution to the various trade disputes that led to the imposition of the tax.
- Two other United States based companies have jointly filed an arbitration claim against the Mexican government for compensation under the investment provisions of the North American Free Trade Agreement (NAFTA).

In addition to these developments related to the tax, the Company has also taken several actions to mitigate the effect of continued imposition of the tax on its business in Mexico. These include:

- Continuing the lobbying efforts seeking relief from the tax.
- Exploring new markets for the HFCS production capability in and around Mexico.
- Restructuring of the Mexican operations in an effort to improve efficiency and reduce operating costs, including the closing of one plant in the fourth quarter of 2004.
- Submitting an arbitration claim against the government of Mexico under the provisions of NAFTA seeking recovery in an amount not less than $325 million.

The assumptions used to formulate the cash flow estimates are subject to change in the future based on business conditions, including but not limited to a change in the current level of HFCS shipments to the Mexican beverage industry, as well as events affecting the likelihood of repeal of the tax and the results of the impairment calculations could be significantly different if performed at a later date. In the event that the tax is not ultimately repealed or modified, or that actual results differ from those assumed, the Company could be required to recognize an impairment of goodwill and the amount of such impairment could be material. It could also lead to a further reorganization of our Mexican operations. The carrying value of the goodwill related to the Mexican operations was approximately $120 million at December 31, 2004.

As stated in previous filings, the Company continues its efforts to gain repeal of the tax and at the same time, to pursue the implementation of the alternative business strategies and operating cost reductions. However, there have been no formal actions taken toward the repeal of the tax. While the Company continues to believe that the profitability of the Mexican operations will support the carrying value of the goodwill, the Company continues to reevaluate certain of the key assumptions underlying the cash flow projections. The Company believes a continued lack of definitive results in negotiations with the Mexican government leading to the repeal or modification of the tax could increase the likelihood that an impairment charge would be required unless HFCS sales to the Mexican beverage industry continue at or above current levels for the long term. The amount of such non-cash charge, if any, will depend on the Company's assessment of the effect that the factors identified above have on expected future cash flow.

In concluding that an impairment of the Mexican goodwill may arise if the tax is not repealed or its effect on HFCS sales in Mexico otherwise mitigated, the Company has not assumed that any proceeds would be received from its arbitration claim for compensation under NAFTA against the Mexican government. Any recovery the Company receives from the resolution of this claim would reduce or offset, in whole or in part, the amount of any impairment to be recognized. However, no assurance can be made that the Company will be successful with its arbitration claim.

1.101

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Litigation and Contingenicies

In March 2002, the Company entered into a contract with DNA Computing Solutions, Inc. ("DNA") to design and manufacture ruggedized circuit card assemblies. In October 2003, the Company filed a lawsuit against DNA for breach of contract seeking payment of unpaid invoices and lost profits. As of June 27, 2004, the amounts associated with this contract included in inventory total approximately $335,000. In addition, included in liabilities is a cash advance from DNA of approximately $295,000. It is the Company's position that it is entitled to keep the cash advance that would cover a portion of the inventory book value. In addition, the remaining inventory is marketable and the Company feels that it can recover the book value of the remaining inventory.

On November 10, 2003, the Company received notice that DNA had filed a counter claim, alleging that the Company had breached the contract and that DNA had suffered significant consequential damages in the form of lost business and lost profits of not less than $11.0 million.

After consultation with legal counsel, it is management's belief that the Company will recover its contract costs and DNA's counter claim will not prevail.

Contingent Receivables

1.102

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 (In Part): Contingencies

Contingent Asset

The corporation sold its European cut tobacco business in 1999. Under the terms of that sale agreement, the corporation received a cash payment of 95 million euros from the buyer in January 2004. If tobacco continues to be a legal product in the Netherlands, Germany and Belgium, additional annual payments of 95 million euros can be received beginning in 2005 and extending through 2010. If tobacco ceases to be a legal product at any time during this period, the corporation forfeits the receipt of all future amounts. The contingent payment of these amounts is based on the legal status of the product in each country, with the Netherlands accounting for 67% of the total, Germany 22% and Belgium 11%. If any of these amounts are received, they will be recognized in income upon receipt and separately disclosed.

RISKS AND UNCERTAINTIES

1.103 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.

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

Nature of Operations

1.105

CINTAS CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Business Description

Cintas Corporation (Cintas) provides highly specialized services to businesses of all types throughout North America. Cintas designs, manufactures, and implements corporate identity uniform programs, provides entrance mats, restroom supplies, promotional products, and first aid and safety products and services and document management services for over 500,000 businesses.

Cintas classifies its businesses into two operating segments: Rentals and Other Services. The Rentals operating segment designs and manufactures corporate identity uniforms which it rents, along with other items, to its customers. The Other Services operating segment involves the design, manufacture and direct sale of uniforms to its customers, as well as the sale of ancillary services induding restroom supplies, first aid products and services, document management and deanroom supplies. All of these services are provided throughout the United States and Canada to businesses of all types—from small service manufacturing companies to major corporations that employ thousands of people.

1.106

EQUIFAX INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting and Reporting Policies

Nature of Operations

We collect, organize and manage various types of financial, demographic and marketing information. Our products and services enable businesses to make credit and service decisions, manage their portfolio risk and develop marketing strategies concerning consumers and commercial enterprises. We serve customers across a wide range of industries, including the financial services, mortgage, retail, telecommunications, utilities, automotive, brokerage, healthcare and insurance industries, as well as state and federal governments. We also enable consumers to manage and protect their financial health through a portfolio of products offered directly to individuals. We have approximately 4,400 employees worldwide, and manage our business globally through the following three reporting segments: Equifax North America, Equifax Europe and Equifax Latin America. Our operations are predominantly located within the U.S., with foreign operations principally located in Canada, the U.K. and Brazil.

Our products and services are categorized as follows: Information Services, Marketing Services and Personal Solutions. Our Information Services products and services allow customers to make credit decisions about consumers and commercial enterprises. Our Marketing Services information products and databases enable customers to identify a target audience for marketing purposes, and our Personal Solutions products and services provide information to consumers which enable them to reduce their exposure to identity fraud and to monitor their credit health.

We develop, maintain and enhance secured proprietary information databases through compilation of accounts receivable information about consumers and businesses that we obtain from a variety of sources, such as credit granting institutions, public record information, including bankruptcies, liens and judgments, and marketing information from surveys and warranty cards. We process this information utilizing our proprietary information management systems and make it available to our customers in virtually any medium or format they choose.

1.107

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Company and Industry Information

Lam Research Corporation (Lam or the Company) is a major supplier of wafer fabrication equipment and services to the world's semiconductor industry. The Company's product offerings include single-wafer plasma etch systems that are used in a wide range of applications, clean products used to perform mechanical and chemical cleaning in a single-step process, and an array of services designed to optimize the utilization of these systems by its customers. The Company sells its products and services primarily to companies involved in the production of semiconductors in the United States, Europe, Japan, and Asia Pacific.

In the fourth quarter of fiscal 2004, the Company decided to cease further investment in chemical mechanical polishing (CMP) systems development. This decision was based on the conclusion that the product did not demonstrate sufficient advantages to garner the market share necessary for adequate returns on further investment.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Over the past three business cycles, the severity of these fluctuations has increased, and today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and prices for semiconductors, customer capacity requirements, and the Company's ability to develop and market competitive products. Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have a severe near-term effect on the Company's operating results and could result in damage to customer relationships. For these and other reasons, our results of operations for the year ended June 27, 2004 may not necessarily be indicative of future operating results.

Use of Estimates

1.108

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The Company bases its estimates on historical experience, management expectations for future performance, and other assumptions, as appropriate. Key areas affected by estimates include: the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows; the determination of the net realizable value of broadcast rights, which is based on estimated future revenues; provisions for returns of magazines and books sold, which are based on historical experience and current marketplace conditions; and, pension and postretirement benefit expenses, which are actuarially determined and include assumptions regarding discount rates, expected returns on plan assets, and rates of increase in compensation and healthcare costs. The Company re-evaluates its estimates on an ongoing basis. Actual results may vary from those estimates.

1.109

THE WILLIAMS COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates and assumptions which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include:

- impairment assessments of investments, long-lived assets and goodwill;
- litigation-related contingencies;
- valuations of energy contracts, including energy-related contracts;
- environmental remediation obligations;
- realization of deferred income tax assets;
- Gas Pipeline and Power revenues subject to refund;
- valuation of Exploration & Production's reserves; and
- pension and post retirement valuation variables.

These estimates are discussed further throughout the accompanying notes.

1.110

WM. WRIGLEY JR. COMPANY (DEC)

ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The consolidated financial statements include the accounts of the Wm.Wrigley Jr. Company and its wholly-owned subsidiaries and any majority-owned investments (the Company). Intercompany balances and transactions have been eliminated. Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect assets, liabilities, revenues, expenses and certain financial statement disclosures. Actual results may vary from those estimates. Additionally, certain amounts reported in 2002 and 2003 have been reclassified to conform to the 2004 presentation.

Significant Estimates

1.111

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 1 (In Part): Basis of Presentation

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

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

Sales Recognition and Incentives (In Part)

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

Discounts, Coupons and Rebates

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

Volume-Based Incentives

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

Accounts Receivable Valuation

Accounts receivable are stated at their net realizable value. The allowance for doubtful accounts reflects the corporation's best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information.

Property

Property is stated at historical cost, and depreciation is computed using the straight-line method over the lives of the assets. Machinery and equipment is depreciated over periods ranging from 3 to 25 years and buildings and building improvements over periods of up to 40 years. Additions and improvements that substantially extend the useful life of a particular asset and interest costs incurred during the construction period of major properties are capitalized. Repairs and maintenance costs are charged to expense. Upon sale or disposition of a property element, the cost and related accumulated depreciation are removed from the accounts. Capitalized interest was $10, $11 and $7 in 2004, 2003 and 2002, respectively.

Property is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Such events include significant adverse changes in the business climate, current period operating or cash flow losses, forecasted continuing losses or a current expectation that an asset group will be disposed of before the end of its useful life. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over its remaining useful life. Restoration of a previously recognized impairment loss is not allowed.

Assets that are to be disposed of by sale are recognized in the financial statements at the lower of carrying amount or fair value, less cost to sell, and are not depreciated after being classified as held for sale. In order for an asset to be classified as held for sale, the asset must be actively marketed, be available for immediate sale and meet certain other specified criteria.

Trademarks and Other Identifiable Intangible Assets

The primary identifiable intangible assets of the corporation are trademarks acquired in business combinations, customer relationships and computer software. Identifiable intangibles with finite lives are amortized and those with indefinite lives are not amortized. The estimated useful life of an identifiable intangible asset to the corporation is based upon a number of factors including the effects of demand, competition, expected changes in distribution channels and the level of maintenance expenditures required to obtain future cash flows.

Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate elements of property. Identifiable intangible assets not subject to amortization are assessed for impairment at least as often as annually and as triggering events may occur. The impairment test for identifiable intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset. In making this assessment, management relies on a number of factors to discount anticipated future cash flows including operating results, business plans and present value techniques. Rates used to discount cash flows are dependent upon interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of intangible asset Impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

Goodwill

Goodwill is not amortized; however, it is assessed for impairment at least as often as annually and as triggering events may occur. The corporation performs its annual review in the second quarter of each year. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Reporting units are business components one level below the operating segment level for which discrete financial information is available and reviewed by segment management.

In evaluating the recoverability of goodwill, it is necessary to estimate the fair value of the reporting units. In making this assessment, management relies on a number of factors to discount anticipated future cash flows including operating results, business plans and present value techniques. Rates used to discount cash flows are dependent upon interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Federal income taxes are provided on that portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable. The management of the corporation periodically estimates the probable tax obligations of the corporation using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the corporation transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretations of regulations. The corporation adjusts its income tax expense in the period in which these events occur. If such changes take place, there is a risk that the tax rate may increase or decrease in any period.

1.112

SUNOCO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates.

Environmental Remediation

Sunoco accrues environmental remediation costs for work at identified sites where an assessment has indicated that cleanup costs are probable and reasonably estimable. Such accruals are undiscounted and are based on currently available information, estimated timing of remedial actions and related inflation assumptions, existing technology and presently enacted laws and regulations. If a range of probable environmental cleanup costs exists for an identified site, the minimum of the range is accrued unless some other point in the range is more likely in which case the most likely amount in the range is accrued.

12 (In Part): Commitments and Contingent Liabilities

Environmental Remediation Activities (In Part)

Sunoco's accruals for environmental remediation activities reflect its estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are both probable and reasonably estimable. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent they are probable of occurrence and reasonably estimable.

Total future costs for the environmental remediation activities identified above will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and terms of cost-sharing arrangements with other potentially responsible parties, the availability of insurance coverage, the nature and extent of future environmental laws, inflation rates and the determination of Sunoco's liability at the sites, if any, in light of the number, participation level and financial viability of the other parties. Management believes it is reasonably possible (i.e., less than probable but greater than remote) that additional environmental remediation losses will be incurred. At December 31, 2004, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled approximately $90 million. However, the Company believes it is very unlikely that it will realize the maximum loss at every site. Furthermore, the recognition of additional losses, if and when they were to occur, would likely extend over many years and, therefore, likely would not have a material impact on the Company's financial position.

1.113

TENET HEALTHCARE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Basis of Presentation

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and prevailing practices for investor-owned entities within the health care industry. The preparation of financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base the estimates on historical experience and on assumptions that we believe to be reasonable given the particular circumstances in which we operate. Although we believe all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

Note 2 (In Part): Significant Accounting Policies

J. Income Taxes

We account for income taxes using the asset and liability method in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Developing our provision for income taxes and analysis of potential tax exposure items requires significant judgment and knowledge of federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets.

We assess the realization of our deferred tax assets to determine whether an income tax valuation allowance is required. Based on all available evidence, both positive and negative, and the weight of that evidence to the extent such evidence can be objectively verified, we determine whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The main factors that we consider include:

- cumulative losses in recent years;
- income/losses expected in future years;
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels;
- the availability, or lack thereof, of taxable income in prior carryback periods that would limit realization of tax benefits;
- the carryforward period associated with the deferred tax assets and liabilities; and
- prudent and feasible tax-planning strategies.

While we believe we have provided adequately for our income tax receivables or liabilities in our consolidated financial statements, adverse determinations by taxing authorities or changes in tax laws and regulations could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Note 15 (In Part): Income Taxes

A valuation allowance of $744 million was recorded in the fourth quarter of 2004 based on an assessment of the realization of our deferred tax assets as described below.

We assess the realization of our deferred tax assets to determine whether an income tax valuation allowance is required. Based on all available evidence, both positive and negative, and the weight of that evidence to the extent such evidence can be objectively verified, we determine whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The main factors that we consider include:

- cumulative losses in recent years;
- income/losses expected in future years;
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels;
- the availability, or lack thereof, of taxable income in prior carryback periods that would limit realization of tax benefits;
- the carryforward period associated with the deferred tax assets and liabilities; and
- prudent and feasible tax-planning strategies.

Through the third quarter of 2004, we concluded that it was more likely than not that the deferred tax assets were realizable. However, we determined that it was appropriate to record a valuation allowance after considering and weighing all evidence in the fourth quarter of 2004. In making our assessment for the fourth quarter of 2004, our adverse results of operations was a negative factor. In addition, the negative factors of having pre-tax losses for the two consecutive years ended December 31, 2004, and a cumulative pre-tax loss at the end of the three-year period ended December 31, 2004, together with the possibility of losses in early future years, imposed a high standard for compelling objective positive evidence to exist in order to overcome the negative factors indicating that the deferred tax assets may not be realized. We established the valuation allowance as a result of assessing the realization of our deferred tax assets based on the fact that we incurred significant impairment charges, legal settlements and continued adverse results of operations in the fourth quarter of 2004, combined with having a cumulative loss for the three-year period ended December 31, 2004, which is considered "negative evidence" under SFAS 109. We concluded that as a result of this negative evidence, SFAS 109 precludes us from relying upon our forecasts of future income for the purpose of supporting the realization of the deferred tax assets under the more likely than not standard.

Income tax expense in the year ended December 31, 2004 included a portion of the impact of establishing the $744 million valuation allowance for our deferred tax assets during the fourth quarter of 2004. This valuation allowance was recorded in the following manner: (1) $480 million was reflected in income tax expense in continuing operations, (2) $144 million was reflected in income tax expense in discontinued operations and (3) $120 million was recorded as an adjustment against additional paid-in capital, rather than income tax expense, due to the fact that excess tax deductions remained from prior stock option awards accounted for in accordance with the fair value based method under SFAS 123.

Given the magnitude of our valuation allowance, our future income/losses could result in a significant adjustment to this valuation allowance.

Vulnerability Due to Certain Concentrations

1.114

INTERGRAPH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Litigation and Other Risks and Uncertainties

The Company owns and maintains a number of registered patents and registered and unregistered copyrights, trademarks, and service marks. The patents and copyrights held by the Company are the principal means by which the Company preserves and protects the intellectual property rights embodied in the Company's products. Similarly, trademark rights held by the Company are used to preserve and protect the reputation of the Company's registered and unregistered trademarks. The Company continuously evaluates various strategies for the protection of its intellectual property. Such strategies are subject to known and unknown risks and uncertainties. Adverse developments with respect to the development of the Company's intellectual property could materially adversely affect the Company's financial condition, results of operations, or prospects. The Company has sought to protect its intellectual property by engaging in both licensing and litigation.

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As industry standards proliferate, there is a possibility that the patents of others may become a significant factor in the Company's business. Computer software technology is increasingly being patent-protected, and many companies, including Intergraph, are developing patent positions for software innovations. It is unknown at the present time whether various patented software technology will be made generally available under licenses, or whether specific innovations will be held by their inventors and not made available to others. In many cases, it may be possible to employ software techniques that avoid the patents of others, but the possibility exists that some features needed to compete successfully in a particular segment of the software market may be unavailable or may require an unacceptably high cost via royalty arrangements. Patented software techniques that become de facto industry standards are among those that may raise costs or may prevent the Company from competing successfully in particular markets.

An inability to protect the Company's copyrights, trademarks, and patents, or to obtain current technical information or any required patent rights of others through licensing or purchase, all of which are important to success in the markets in which the Company competes, could significantly reduce the Company's revenues and adversely affect its results of operations.

1.115

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

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

Concentrations

At October 31, 2004, the company employed approximately 6,800 hourly workers and 5,700 salaried workers in the U.S. and Canada. Approximately 82% of the hourly employees and 15% of the salaried employees are represented by unions. Of these represented employees, approximately 90% of the hourly workers and 100% of the salaried workers are represented by the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) or the National Automobile, Aerospace, and Agricultural Implement Workers of Canada (CAW). The company's current master contract with the UAW expires on September 30, 2007. On June 23, 2004, the company and the CAW reached an agreement on a new collective bargaining agreement which extended the original agreement to June 30, 2009.

Sales of mid-range diesel engines to Ford by the engine segment were 18% of consolidated sales and revenues in 2004, 21% in 2003 and 19% in 2002. In addition. Ford accounted for approximately 76%, 77% and 78% of our diesel engine unit volume in fiscal 2004, fiscal 2003 and fiscal 2002, respectively. The company has an agreement with Ford to be its exclusive supplier of V-8 diesel engines through 2012 for all of Ford's diesel-powered super-duty trucks and vans over 8,500 lbs gross vehicle weight in North America.

1.116

VARCO INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation

Nature of Business and Risk Factors (In Part)

The Company provides highly engineered drilling and well-servicing equipment, products and services to the world's oil and gas industry. The Company operates in four principal business segments: Drilling Equipment Group, Tubular Services, Drilling Services and Coiled Tubing and Wireline Products.

The oil and gas industry in which the Company participates has historically experienced significant volatility. Demand for the Company's services and products depends primarily upon the general level of activity in the oil and gas industry worldwide, including the number of drilling rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volume of production, the number of well completions and the level of well remediation activity. Oil and gas activity is in turn heavily influenced by, among other factors, oil and gas prices worldwide. High levels of drilling and well-remediation activity generally spur demand for the Company's products and services used to dirll and remediate oil and gas wells. Additionally, high levels of oil and gas activity increase cash flows available for drilling contractors, well-remediation service companies, and manufacturers of oil country tubular goods to invest in capital equipment which the Company sells.

Much of the Company's Drilling Equipment group's revenues are determined by the capital expenditures of drilling contractors and oil companies on equipment for new drilling rig fabrication or drilling rig refurbishment projects. Capital expenditures are influenced by cash flows these contractors generate from drilling activity, but also by the availability of financing, the outlook for future drilling activity, and other factors. Generally the Company believes the demand for more drilling capital equipment lags increases in the level of drilling activity. A significant portion of the Drilling Equipment group's revenue is related to the sale of drilling equipment spare parts and consumables, the provision of equipment-repair services, and the rental of drilling equipment, which the Company believes are generally determined directly by the level of drilling activity.

The majority of the Company's Tubular Service group's revenues are directly related to the level of demand for oil country tubular goods, which is determined by the level of drilling, completion, and well servicing activity (which use oil country tubular goods). A portion of Tubular Services sales are related to (1) demand for pipeline inspections, which is generally unrelated to drilling or well remediation activity and may be adversely affected by high commodity prices that cause operators to defer inspections; (2) the sale of fiberglass and composite tubing to industrial customers, which is generally unrelated to drilling or well remediation activity but may be tied somewhat to oil and gas prices; and (3) the sale of pipe inspection equipment to the manufacturers of oil country tubular goods, which is indirectly related to drilling activity, in the Company's view. Since the services provided by this group tend to prolong the useful life of steel tubular products, demand for the services may be impacted by steel costs.

The Company's Drilling Services group's revenues are closely tied to drilling activity, although a portion of Drilling Services revenues are related to the sale of capital equipment to drilling contractors, which is indirectly related to the level of drilling activity. The Company's Drilling Services sales of consumables, such as shaker screens, and spare parts for its equipment, are generally determined directly by the level of drilling activity, in the Company's view.

The Company's Coiled Tubing & Wireline Products group's revenues are generally driven by the capital expenditures of well service contractors. These capital expenditures are influenced by the cash flows these contractors generate from well completion and remediation activity, but also by the availability of financing, the outlook for future well remediation activity, and other factors. A portion of the Coiled Tubing & Wireline Products revenue is determined by the demand for spare parts and consumables, the provision of equipment repair services, and the rental of well servcing equipment, which the Company believes are generally determined directly by the level of well completion and remediation activity.

Drilling and well servicing activity can fluctuate significantly in a short period of time. The willingness of oil and gas operators to make capital investments to explore for and produce oil and natural gas will continue to be influenced by numerous factors over which the Company has no control, including: the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to maintain oil price stability through voluntary production limits of oil; the level of oil production by non–OPEC countries; supply and demand for oil and natural gas; general economic and political conditions; costs of exploration and production; and the availability of new leases and concessions; and governmental regulations regarding, among other things, environmental protection, taxation, price controls and product allocations. The willingness of drilling contractors and well remediation contractors to make capital expenditures for the type of specialized equipment the Company provides is also influenced by numerous factors over which the Company has no control, including: the general level of oil and gas well drilling and well remediation; access to external financing; outlook for future increases in well drilling and well remediation activity; and government regulations regarding, among other things, environmental protection, taxation, and price controls.

The Company operates in over 40 countries around the world. Its revenues are geographically located in North America (53%), Latin America (10%), Europe, Africa, and the Middle East (27%), and the Far East (10%). As a result of its international presence, the Company's operations are subject to the risks normally associated with conducting businesses in foreign countries, including foreign exchange fluctuations and uncertain political and economic environments, which may limit or disrupt markets, restrict the movement of funds or result in the deprivation of contract rights or the taking of property without compensation. In addition, the Company has significant customer concentrations in the Middle East, Latin America and the Far East whose spending can be volatile based on oil price changes, the political environment and delays in the government budget. Adverse changes in individual circumstances can have a significant negative impact on the financial performance of the Company.

1.117

VISHAY INTERTECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. 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 material 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 cost 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, write-downs of $5,406,000 and $25,700,000 on tantalum inventories during the years ended December 31, 2003 and 2002, respectively. The Company also recorded losses on purchase commitments of $16,213,000, $11,392,000 and $106,000,000 for the years ended December 31, 2004, 2003, and 2002, 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 pricing trend for tantalum has been relatively stable since 2003. The mix of the Company's purchases of tantalum grades during 2004 was significantly different than initially expected, which resulted in additional losses on purchase commitments being recorded in 2004. 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 two contracts with Cabot Corporation to make purchases of tantalum of approximately $123,500,000 in 2005 and $60,100,000 in 2006. The Company purchased $107,438,000, $107,906,000, and $53,280,000 under these contracts during the years ended December 31, 2004, 2003, and 2002, 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, 2004. 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 $149,300,000 in 2005 and $81,300,000 in 2006. Vishay believes that the likelihood that it would default on its obligations under the contracts is remote.

One of the Company's contracts with Cabot provides for price reductions in 2006 if certain conditions are met. The Company's estimates of losses on purchase commitments are based on the assumption that the Company will not receive these conditional price reductions in 2006. The Company may be required to reverse a portion of these recorded losses if it meets all conditions to receive these price reductions.

At December 31, 2004 and 2003, the Company had tantalum with a book value of $97,656,000 and $95,432,000, respectively. Of these amounts, the Company classified $42,039,000 and $28,724,000, respectively, as other assets, representing the value of quantities which would not be used within one year.

At December 31, 2004 and 2003, the Company had $64,510,000 and $89,400,000, respectively, of total liabilities recorded related to tantalum purchase commitments. Of the total liabilities recorded, the Company has classified $33,410,000 and $31,675,000 as current liabilities within other accrued expenses at December 31, 2004 and 2003, 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 $435 per troy ounce during the last three years. As of December 31, 2004, the price of palladium was approximately $184 per troy ounce. During the years ended December 31, 2004, 2003 and 2002, the Company recorded in costs of products sold writedowns of $400,000, $1,585,000 and $1,700,000, respectively, to reduce palladium inventories on hand to market value. The net book value of palladium inventories was $3,218,000 and $4,384,000 at December 31, 2004 and 2003, respectively.

The Company has commitments to purchase palladium in 2005. The contract price is greater than current market price. The Company recognized a loss of $400,000 during the year ended December 31, 2004 related to these purchase commitments. This amount is included in other accrued expenses on the consolidated balance sheet.

Geographic Concentration

To address the increasing demand for its products and to lower its costs, the Company has expanded, and plans to continue to expand, its manufacturing operations in Israel in order to take advantage of that country's lower wage rates, highly skilled labor force, government-sponsored grants, and various tax abatement programs. Israeli incentive programs have contributed substantially to the growth and profitability of the Company. The Company might be materially and adversely affected if these incentive programs were no longer available to the Company or if events were to occur in the Middle East that materially interfered with the Company's operations in Israel.

COMMITMENTS

1.118 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.

1.119 Examples of commitment disclosures follow.

1.120

TABLE 1-12: COMMITMENTS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Debt covenant restrictions	408	406	388	375
Purchase agreements	240	218	196	157
Capital expenditures	68	62	66	69
Additional payments related to acquisitions	59	38	41	45
Licensing agreements	40	23	25	23
Employment contracts	35	31	32	30
Sales agreements	27	24	35	18
Other—described	80	66	80	68

Debt Covenant Restrictions

1.121

BARNES GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Debt and Commitments

The Company's debt agreements contain financial covenants that require the maintenance of interest coverage and leverage ratios, and minimum levels of net worth. The agreements also place certain restrictions on indebtedness, capital expenditures and investments by the Company and its subsidiaries. Such covenants and restrictions determine the amount of borrowings, dividend payments or treasury stock purchases the Company can make.

The most restrictive borrowing capacity covenant in any agreement requires the Company to maintain a ratio of Total Debt to EBITDA, as defined in the revolving credit agreement, of not more than 3.25 times. This ratio requirement will decrease to 2.75 times at June 30, 2008. The actual ratio at December 31, 2004 was 2.70 times and would have allowed $53,539 of additional borrowings. The debt agreements also require the Company to maintain a minimum level of net worth. Under the most restrictive covenant, net worth must not be less than $260,000 plus 50% of Consolidated Net Income for each fiscal year beginning after December 31, 2003. As of December 31, 2004, the Company's actual net worth, as defined by the debt agreements, of $339,740 exceeded the required level of minimum net worth of $276,701 by $63,039.

1.122

FISERV, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Long-Term Debt

The Company has available a $700.0 million unsecured line of credit and commercial paper facility with a group of banks, of which $195.0 million was in use at December 31, 2004, with a weighted-average variable interest rate of 2.8% and 1.8% at December 31, 2004 and 2003, respectively. The credit facilities, which expire in May 2009, consist of a $465.3 million five-year revolving credit facility and a $234.7 million 364-day revolving credit facility which is subject to renewal annually through 2009. There were no significant commitment fees or compensating balance requirements under these facilities. The Company must, among other requirements, maintain a minimum net worth of $1.8 billion as of December 31, 2004 and limit its total debt to no more than three and one-half times the Company's earnings before interest, taxes, depreciation and amertization. The Company was in compliance with all debt covenants throughout 2004.

1.123

THE ROWE COMPANIES (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Long-Term Debt and Capital Leases

Covenants

The capital lease obligation, revolving bank loan and term loan agreements prohibit the Company from paying dividends, repurchasing stock or incurring additional debt (other than certain permitted debt) without the lender's written consent and are collateralized by substantially all assets of the Company and its subsidiaries. Permitted debt generally includes: (i) certain existing debt and future obligations to the lenders; (ii) trade accounts payable and accrued expenses, including accrued payroll, benefit plans, taxes, and other operating expenses, incurred in the ordinary course of business; (iii) rent obligations under leases; (iv) debt incurred for the purchase of fixed assets that does not at any time exceed, in the aggregate, $500,000; (v) certain obligations which may arise as a result of any guaranty, indemnity or other assurance of payment or performance by others incurred in the ordinary course of business or under other limited specified circumstances; (vi) debt incurred as a result of the refinancing of certain existing debt; and (vii) other debt not included above that does not at any time exceed, in the aggregate, $500,000.

The agreements also restrict the amount of capital expenditures and the Company's ability to sell certain assets. Each of these facilities contain, among other things, covenants with respect to a fixed charge coverage ratio (defined generally as the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), reduced by capital expenditures and cash taxes, to consolidated debt service), maximum leverage ratio (defined generally as the ratio of consolidated debt to consolidated EBITDA), and to maintain a minimum monthly EBITDA, minimum excess borrowing availability ($3.0 million), and minimum consolidated tangible net worth (defined generally as total equity reduced by goodwill), maximum consolidated leverage ratio and maximum capital expenditures. As of November 28, 2004, the Company was in compliance with the provisions of these agreements as amended on February 24, 2005.

1.124

SUNOCO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Short-Term Borrowings and Credit Facilities

In June 2004, the Company entered into a new revolving credit facility (the "New Facility") totaling $900 million, which matures in June 2009. The New Facility replaces a prior $785 million facility. The New Facility provides the Company with access to short-term financing and is intended to support the issuance of commercial paper and letters of credit. The Company also can borrow directly from the participating banks under the New Facility. The New Facility is subject to commitment fees, which are not material. Under the terms of the New Facility, Sunoco is required to maintain tangible net worth (as defined in the New Facility) in an amount greater than or equal to targeted tangible net worth (targeted tangible net worth being determined by adding $1.125 billion and 50 percent of the excess of net income over share repurchases (as defined in the New Facility) for each quarter ended after March 31, 2004). At December 31, 2004, the Company's tangible net worth was $1.7 billion and its targeted tangible net worth was $1.2 billion. The New Facility also requires that Sunoco's ratio of consolidated net indebtedness, including borrowings of Sunoco Logistics Partners L.P., to consolidated capitalization (as those terms are defined in the New Facility) not exceed .60 to 1. At December 31, 2004, this ratio was .37 to 1. At December 31, 2004, the New Facility is being used to support $100 million of commercial paper (with a weighted-average interest rate of 2.13 percent) and $103 million of floating-rate notes due in 2034.

In November 2004, Sunoco Logistics Partners L.P. replaced its three-year $250 million revolving credit facility with a new $250 million revolving credit facility, which matures in November 2009. This facility is available to fund the Partnership's working capital requirements, to finance acquisitions, and for general partnership purposes. It includes a $20 million distribution sublimit that is available for distributions to third-party unitholders and Sunoco. At December 31, 2004 and 2003, $65 million was outstanding under these facilities. The current credit facility contains covenants requiring the Partnership to maintain a ratio of up to 4.5 to 1 of its consolidated total debt to its consolidated EBITDA (each as defined in the current credit facility) and an interest coverage ratio (as defined in the current credit facility) of at least 3 to 1. At December 31, 2004, the Partnership's ratio of its consolidated debt to its consolidated EBITDA was 2.8 to 1 and the interest coverage ratio was 5.4 to 1.

The Company's Epsilon joint venture has a $40 million revolving credit facility that matures in September 2006. The credit facility contains restrictive covenants which, among other things, limit the incurrence of additional debt and the sale of assets by Epsilon. At December 31, 2004, $6 million was outstanding under this credit facility, which is guaranteed by Sunoco, Inc. Sunoco, Inc. also guarantees Epsilon's $120 million term loan due in September 2006.

Purchase Agreements

1.125

ELECTRONIC DATA SYSTEMS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Commitments and Rental Expense

The Company has signed certain service agreements with terms of up to ten years with certain vendors to obtain favorable pricing and commercial terms for services that are necessary for the ongoing operation of its business. These agreements relate to software and telecommunications services. Under the terms of these agreements, the Company has committed to contractually specified minimums over the contractual periods. The contractual minimums are: 2005–$813 million; 2006–$819 million; 2007–$865 million; 2008–$411 million; 2009–$402 million; and all years thereafter–$443 million. Amounts paid under these agreements were $821 million, $1,364 million and $762 million during the years ended December 31, 2004, 2003 and 2002, respectively. To the extent that the Company does not purchase the contractual minimum amount of services, the Company must pay the vendors the shortfall. The Company believes that it will meet the contractual minimums through the normal course of business.

1.126

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Commitments

Phelps Dodge has unconditional purchase obligations (take-or-pay contracts) of $523.0 million comprising the procurement of electricity (approximately 34 percent); petroleum-based products (approximately 25 percent); transportation (approximately 13 percent); copper anode (approximately 10 percent); natural gas (approximately 4 percent); sulfuric acid (approximately 4 percent); oxygen (approximately 2 percent); port fee commitments (approximately 2 percent); and other supplies (approximately 6 percent) that are essential to our operations worldwide. Some of our unconditional purchase obligations are settled based on the prevailing market rate for the service or commodity purchased. In such cases, the amount of the actual obligation may change over time due to market conditions. Approximately 75 percent of our take-or-pay electricity obligations are through PD Energy Services, the legal entity used to manage power for PDMC, at generally fixed-price arrangements. PD Energy Services has the right and the ability to resell the electricity as circumstances warrant. Obligations for petroleum-based feedstock at our Specialty Chemicals segment, which is converted into carbon black, are for specific quantities and will ultimately be purchased based upon prevailing market prices at that time. These petroleum-based products may be re-sold to others if circumstances warrant. Transportation obligations are primarily for importing sulfuric acid to El Abra and shipping copper concentrates from Candelaria. Obligations for copper anode provide for deliveries of specified volumes, at market-based prices, to our El Paso Refinery. Obligations for natural gas provide for deliveries of specified volumes, at market-based prices, primarily to our carbon black operation in Brazil. Our sulfuric acid purchases provide for deliveries of specified volumes, based primarily on negotiated rates, to El Abra and Cerro Verde. Our oxygen obligations provide for deliveries of specified volumes, at fixed prices, to Bagdad. Our carbon black facility in the United Kingdom has port fee commitments.

Our future commitments are $210.8 million, $110.4 million, $74.4 million, $40.9 million, $18.5 million and $68.0 million for 2005, 2006, 2007, 2008, 2009, and after 2009, respectively.

During 2004, 2003 and 2002, we fulfilled our minimum contractual purchase obligations for those periods or negotiated settlements in those situations in which the Company terminated an agreement containing an unconditional obligation.

1.127

SONOCO PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

14 (In Part): Commitments and Contingencies

Commitments

In December 2003, the Company entered into an agreement with the majority shareholders of Demolli Industra Cartaria S.p.A., an Italian-based manufacturer of paperboard and engineered carriers that is currently partially owned by the Company and reported as an equity method investment. This agreement allows the majority shareholder to require (through a put option arrangement) the Company to buy the shares not currently owned by the Company at any time between the date of the agreement and December 2006. The agreement also gives the Company the right to purchase the shares (through a call option arrangement) any time after December 2006 through December 2009. The price of the share purchase will be determined by a pre-set formula, which the Company believes approximates fair value, related to an earnings multiple at the time such shares might be put or called.

In November 2004 and in conjunction with the Sonoco-Alcore S.a.r.l. joint venture, the Company entered into an agreement with Ahlstrom, the minority shareholder of Sonoco-Alcore S.a.r.l. This agreement states that, following a two and one-half year standstill period, subject to certain conditions, Ahlstrom shall have the right over the next three and one-half years to require (through a put option arrangement) the Company to purchase its shares in Sonoco-Alcore S.a.r.l. During the seventh year, the Company will have the right to purchase the shares (through a call option arrangement). The price of the share purchase will be determined by a pre-set formula, which the Company believes approximates fair value, related to an earnings multiple at the time such shares might be put or called.

As of December 31, 2004, the Company had long-term obligations to purchase electricity and steam, which it uses in its production processes. The purchase contracts require the Company to make total payments of approximately $83,500 through 2020.

Capital Expenditures

1.128

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 0 (In Part): Commitments

Commitments for capital expenditures were approximately $727,400,000 at December 31, 2004, including $28,300,000 for costs to develop deepwater Gulf of Mexico fields, $63,200,000 for continued expansion of synthetic oil operations in Canada, $394,000,000 for field development and future work commitments in Malaysia, and $37,000,000 for exploration drilling in Congo.

1.129

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 (In Part): Contingencies and Commitments

Commitments (In Part)

At December 31, 2004 and 2003, U. S. Steel's domestic contract commitments to acquire property, plant and equipment totaled $98 million and $23 million, respectively.

USSK has a commitment to the Slovak government for a capital improvements program of $700 million, subject to certain conditions, over a period commencing with the acquisition date of November 24, 2000, and ending on December 31, 2010. The remaining commitments under this capital improvements program as of December 31, 2004 and 2003, were $257 million and $433 million, respectively.

USSB has the following commitments with the Serbian government: (i) spending during the first five years for working capital, the repair, rehabilitation, improvement, modification and upgrade of facilities and community support and economic development of up to $157 million, subject to certain conditions; (ii) a stable employment policy for three years assuring employment of the approximately 9,000 employees, excluding natural attrition and terminations for cause; and (iii) an agreement not to sell, transfer or assign a controlling interest in USSB to any third party without government consent for a period of five years. USSB spent approximately $135 million (including working capital) through December 31, 2004. As of December 31, 2004 and 2003, the remaining commitment with the Serbian government was $22 million and $111 million, respectively.

Additional Payments Related to Acquisitions

1.130

PEROT SYSTEMS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars and shares in thousands)

4 (In Part): Acquisitions

Soza & Company, Ltd. (In Part)

On February 20, 2003, we acquired all of the outstanding shares of Soza & Company, Ltd., a professional services company that provides information technology, management consulting, financial services and environmental services primarily to public sector customers. As a result of the acquisition, we increased our customer base and service offerings in the Government Services reporting segment.

The initial purchase price for Soza was $73,765 in cash (net of $2,897 in cash acquired), $5,000 of which is being held in an escrow account for up to two years. The purchase agreement contains provisions that include additional payments of up to $32,000, which are dependent on Soza achieving certain annual financial targets in 2003 and 2004. At our discretion, up to 70% of this additional consideration may be settled in our Class A Common Stock. During 2004, it was determined that Soza met the financial target for 2003, and we paid $14,898 of additional consideration, consisting of $6,318 in cash and $8,580 in the form of 641 shares of our Class A Common stock. In addition, during 2004 we increased the values of certain tax assets that we had purchased in the Soza acquisition by $3,636, which reduced the amount of purchase price allocated to goodwill by the same amount. The maximum amount of additional consideration that we may pay in 2005 relating to Soza's financial performance for 2004 is $17,000.

The results of operations of Soza and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The final allocation of the excess of the purchase price over the net assets acquired is pending the potential additional payments during 2005; however, the estimated excess purchase price over net assets acquired of $65,377 as of December 31, 2004, was recorded as goodwill on the consolidated balance sheets, was assigned to the Government Services segment and is not deductible for tax purposes. Additional payments made in 2005 will be recorded as additional goodwill in the Government Services segment.

ADI Technology Corporation (In Part)

On July 1, 2002, we acquired all of the outstanding shares of ADI Technology Corporation, a professional services company that provides technical, information, and management disciplines to the Department of Defense and other governmental agencies. As a result of the acquisition, we expanded into a Government Services reporting segment.

The initial purchase price for ADI was $37,720 in cash (net of $45 in cash acquired). The purchase agreement contains provisions that include additional payments of up to $15,000, which are dependent on ADI achieving certain annual financial targets in 2002 through 2004. At our discretion, up to 60% of this additional consideration may be settled in our Class A Common Stock. During 2003, it was determined that ADI met the financial target for 2002, and we paid $907 of additional cash consideration, which was net of a contractual purchase price adjustment of $2,093. During 2004, it was determined that ADI met the financial target for 2003, and we paid $5,001 of additional consideration, consisting of $2,676 in cash and $2,325 in the form of 175 shares of our Class A Common stock. The maximum amount of additional consideration that we may pay in 2005 relating to ADI's financial performance for 2004 is $6,700.

The results of operations of ADI and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The final allocation of the excess of the purchase price over the net assets acquired is pending the potential additional payment during 2005; however, the estimated excess purchase price of $31,915 as of December 31, 2004, was recorded as goodwill on the consolidated balance sheets, was assigned to the Government Services segment, and is not deductible for tax purposes. Additional payments made in 2005 will be recorded as additional goodwill in the Government Services segment.

1.131

VALERO ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

St. Charles Acquisition

On July 1, 2003, Valero completed the acquisition of the St. Charles Refinery (St. Charles Acquisition) from Orion Refining Corporation (Orion). Total consideration for the purchase, including various transaction costs incurred and the release of certain escrowed amounts discussed below, was $529.0 million and included the issuance of 10 million shares of mandatory convertible preferred stock with a fair value of $22 per share. The purchase agreement required 844,000 shares of the mandatory convertible preferred stock to be held in escrow pending the satisfaction of certain conditions. The purchase agreement also provided for the assumption of certain environmental and regulatory obligations as well as for potential earn-out payments up to an aggregate of $175 million as discussed in Note 23 under "*Contingent Earn-Out Agreements*." As of December 31, 2003, the escrowed shares had been converted to cash, which was held in escrow and reflected in "restricted cash" in the consolidated balance sheet. Through December 31, 2004, Valero paid a total of $17.3 million of the escrowed cash as prescribed by the purchase agreement.

The total potential earn-out payments of $175 million discussed above were recognized in "property, plant and equipment" (with $50 million recorded as a current liability in "accrued expenses" and $125 million recorded in "other long-term liabilities") as part of the purchase price allocation since the net fair value of the assets acquired and liabilities assumed exceeded the cost of the acquisition by an amount greater than the potential earn-out amount. During the second quarter of 2004, an independent appraisal was completed and the resulting final purchase price allocation for the St. Charles Acquisition is summarized below (in millions). The amounts reflected include the accrual of the potential earn-out payments.

Inventories	$ 154.8
Property, plant and equipment	574.0
Accrued expenses	(50.5)
Other long-term liabilities	(149.3)
Total purchase price	$ 529.0

23 (In Part): Commitments and Contingencies

Contingent Earn-Out Agreements

In connection with Valero's acquisitions of the St. Charles Refinery in 2003, the Paulsboro Refinery in 1998 and Basis Petroleum, Inc. in 1997, the sellers are entitled to receive payments in any of the seven, five and ten years, respectively, following these acquisitions if certain average refining margins during any of those years exceed a specified level. The following table summarizes the payments made and payment limitations for these acquisitions (in millions):

	St. Charles Refinery	Paulsboro Refinery	Basis Petroleum, Inc.
Payments made during the year ended December 31:			
2002	$ —	$ —	$ 23.9
2003	—	15.6	35.0
2004	—	N/A	35.0
Aggregate payments made through 2004	—	35.6	139.2
Annual maximum limit	50.0	N/A	35.0
Aggregate limit	175.0	N/A	200.0

No future earn-out payments related to the acquisition of the Paulsboro Refinery will be due as the term of the earn-out arrangement expired in September 2003.

For the acquisitions of the Paulsboro Refinery and Basis Petroleum, Inc., Valero accounts for payments under these arrangements as an additional cost of the respective acquisition when the payments are made. As of December 31, 2004, $59.3 million of the aggregate earn-out payments related to these acquisitions had been attributed to "property, plant and equipment" and is being depreciated over the remaining lives of the assets to which the additional cost was allocated and $115.5 million had been attributed to "goodwill" and is not being amortized.

As discussed in Note 2, a liability for the aggregate limit of potential earn-out payments totaling $175 million related to the St. Charles Acquisition was accrued as of December 31, 2004. The offsetting amount is reflected in "property, plant and equipment" and is being depreciated over the remaining lives of the assets to which the cost was allocated as part of the purchase price allocation. In January 2005, Valero made an earn-out payment of $50.0 million related to the St. Charles Acquisition.

Licensing Agreement

1.132

KELLWOOD COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 13 (In Part): Commitments and Contingencies

The Company has exclusive license agreements to market apparel under trademarks owned by other parties. These include Calvin Klein® and IZOD® for women's sportswear, Def Jam™ for men's and women's sportswear, Liz Claiborne$$ for women's dresses and suits and XOXO® for junior's sportswear and dresses. These agreements contain provisions for minimum royalty and advertising payments based on anticipated sales in future periods. In 2004 the royalty and advertising expense for these agreements totaled $28,182 and $13,242, respectively ($18,941 and $2,231 in 2003 and $12,335 and $674 in 2002).

Detail of the future minimum payments for all license agreements is as follows:

	Royalties	Advertising
2005	$19,390	$ 8,880
2006	23,858	8,318
2007	19,111	7,165
2008	13,612	6,306
2009	50	—
Thereafter	50	—
Total	$76,071	$30,669

Employment Contracts

1.133

COOPER TIRE & RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

Employment Contracts

The Company has employment arrangements with three key executive employees and has change in control severance agreements covering eight additional key executives. These arrangements provide for continuity of management and provide for payments of multiples of annual salary, certain incentives and continuation of benefits upon the occurrence of specified events in a manner that is believed to be consistent with comparable companies. In addition, the Chief Executive Officer's agreement provides for retention payments which accrue at various amounts annually beginning with $225 if he leaves the Company at any time in 2005 and increase annually thereafter to a payment of $2,750 if he leaves in 2015, the year in which he will reach age 65.

Under terms of an employment agreement with the president of the automotive operations and terms of a change in control severance pay plan for eight additional key automotive executives, such executives are entitled to specified severance payments if terminated by the buyer within predetermined time periods after the sale. The Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007 in the case of the automotive operation's president and on or prior to December 22, 2006 for the eight other automotive executives. The Company was required to fund, immediately following the sale, its potential obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. The Company does not believe it is presently probable that any of the executives will be terminated within the periods in which it is obligated to pay the severance costs. Accordingly, no accrual for severance has been recorded. If information becomes known to the Company at a later date which indicates severance of one or more of the covered executives is probable within the time period covered by the Company, accruals for severance will be required.

Sales Agreement

1.134

ATMEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 3 (In Part): Balance Sheet Detail

As of December 31, 2004, Atmel had received $94,668 in customer advances, of which $10,000 is recorded in accrued and other liabilities and $84,668 in other long-term liabilities. The customer advances relate to financings and supply agreements into which Atmel entered with a specific customer in 2000. The supply agreements call for the Company to make available to the customers 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. Minimum payments required to be made annually are the greater of 15% of value of product shipped to customer or $10,000, until such time that the advances have been fully repaid. The Company paid $10,000 in each of the three years ended December 31, 2004, under these agreements.

Merger Agreement

1.135

GUIDANT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On December 15, 2004, the Company entered into an agreement and plan of merger with Johnson & Johnson (J&J) pursuant to which J&J will acquire the Company for approximately $25.4 billion in fully diluted equity value. Under the terms of the agreement, each Company common share will be exchanged for $30.40 in cash and $45.60 in J&J stock, provided that the average J&J common stock price is between $55.45 and $67.09 during the fifteen-day trading period ending three days prior to the transaction closing. Accordingly, each Guidant share will be converted into not more than .8224 and not less than .6797 of a J&J common share, plus $30.40 in cash. The boards of directors of the Company and J&J have approved the transaction, which remains subject to the approval of the Company's shareholders, clearance under the Hart-Scott-Rodino Antitrust Improvements Act, the European Union merger control regulation, and other customary closing conditions.

FINANCIAL INSTRUMENTS

1.136 The Financial Accounting Standards Board (FASB) has issued several statements concerning financial instruments SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires reporting entities to disclose the fair value of financial instruments, and as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, includes the disclosure requirements of credit risk concentrations from SFAS No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*. In addition to amending *SFAS No. 107, SFAS No. 133* supersedes *SFAS No. 105* and SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments. SFAS No. 133* establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which amended *SFAS No. 133*, addresses implementation issues for certain derivative Instruments and Certain Hedging activities. SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, amends and clarifies *SFAS No. 133* in connection with implementation issues and the definition of a derivative. 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.

1.137 Table 1-13 lists the frequencies of the various types of financial instruments of the survey companies. 317 survey companies entered into interest rate swaps. 299 survey companies entered into forward foreign currency contracts, options, of foreign exchange contracts. Swaps, futures, forward contracts, collars, or options were common types of commodity contracts reported by the survey companies. 106 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.

1.138 Examples of fair value disclosure for financial instruments and of disclosures for concentration of credit risk follow.

1.139

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Interest rate contracts	331	335	341	315
Foreign currency contracts	309	312	308	329
Commodity	112	112	109	119
Guarantees/indemnifications				
Debt	232	227	226	136
Lease payments	91	75	56	35
Contract performance	65	58	54	35
Intellectual property related	60	N/C*	N/C*	N/C*
Tax	46	34	N/C*	N/C*
Environmental	45	66	N/C*	N/C*
Employee related	36	N/C*	N/C*	N/C*
Other property related	20	N/C*	N/C*	N/C*
Support agreements	18	21	24	7
Other	33	97	30	28
Letters of credit	326	304	263	205
Sale of receivables with recourse	30	33	20	25

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

DERIVATIVE FINANCIAL INSTRUMENTS

1.140

NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting for Derivatives and Hedging Activities

The Company uses derivative financial instruments to limit exposure to changes in foreign currency exchange rates and interest rates. The Company accounts for derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted (FAS 133), which was adopted on June 1, 2001. FAS 133 establishes accounting and reporting standards for derivative instruments and requires that all derivatives be recorded at fair value on the balance sheet. Changes in the fair value of derivative financial instruments are either recognized in other comprehensive income (a component of shareholders' equity) or net income depending on whether the derivative is being used to hedge changes in cash flows or changes in fair value.

In accordance with the transition provisions, the Company recorded a one-time transition adjustment as of June 1, 2001 on both the consolidated statement of income and the consolidated balance sheet. The transition adjustment on the consolidated statement of income was a charge of $5.0 million, net of tax effect. This amount related to an investment that was adjusted to fair value in accordance with FAS 133. The transition adjustment on the consolidated balance sheet represented the initial recognition of the fair values of hedge derivatives outstanding on the adoption date and realized gains and losses on effective hedges for which the underlying exposure had not yet affected earnings. The transition adjustment on the consolidated balance sheet was an increase in current assets of $116.4 million, an increase in noncurrent assets of $87.0 million, an increase in current liabilities of $151.6 million, and an increase in other comprehensive income of approximately $56.8 million, net of tax effect. The majority of the $56.8 million recorded in other comprehensive income as of June 1, 2001 related to outstanding derivatives at that date. Because exchange rates on the transition date were different from those on the maturity dates of these derivatives and because some contracts maturing during the year ended May 31, 2002 were entered into after the transition date, amounts ultimately reclassified to earnings during the year ended May 31, 2002, as described in Note 13, were significantly different from this amount.

Unrealized derivative gains and losses recorded in current and non-current assets and liabilities and amounts recorded in other comprehensive income are non-cash items and therefore are taken into account in the preparation of the consolidated statement of cash flows based on their respective balance sheet classifications.

See Note 16 for more information on our Risk Management program and Derivatives.

Note 16 (In Part): Risk Management and Derivatives

The Company is exposed to global market risks, including the effect of changes in foreign currency exchange rates and interest rates. The Company uses derivatives to manage financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for trading purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to either specific assets and liabilities on the balance sheet or specific firm commitments or forecasted transactions.

Substantially all derivatives entered into by the Company are designated as either cash flow or fair value hedges. All derivatives are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as other current assets or other non-current assets, depending on the instrument's maturity date. Unrealized loss positions are recorded as accrued liabilities or other non-current liabilities. Changes in fair values of outstanding cash flow hedge derivatives that are highly effective are recorded in other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction. Fair value hedges are recorded in net income and are offset by the change in fair value of the underlying asset or liability being hedged.

Cash Flow Hedges

The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies, including revenues, product costs, selling and administrative expenses, investments in U.S. dollar-denominated available-for-sale debt securities and intercompany transactions, including intercompany borrowings, will be adversely affected by changes in exchange rates. It is the Company's policy to utilize derivatives to reduce foreign exchange risks where internal netting strategies cannot be effectively employed.

Derivatives used by the Company to hedge foreign currency exchange risks are forward exchange contracts, options and cross-currency swaps. These instruments protect against the risk that the eventual net cash inflows and outflows from foreign currency denominated transactions will be adversely affected by changes in exchange rates. The cross-currency swaps are used to hedge foreign currency denominated payments related to intercompany loan agreements. Hedged transactions are denominated primarily in European currencies, Japanese yen, Canadian dollars, Korean won, Mexican pesos, and Australian dollars. The Company hedges up to 100% of anticipated exposures typically twelve months in advance but has hedged as much as 32 months in advance. When intercompany loans are hedged, it is typically for their expected duration.

Substantially all foreign currency derivatives entered into by the Company qualify for and are designated as foreign-currency cash flow hedges, including those hedging foreign currency denominated firm commitments.

Changes in fair values of outstanding cash flow hedge derivatives that are highly effective are recorded in other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction. In most cases amounts recorded in other comprehensive income will be released to net income some time after the maturity of the related derivative. The consolidated statement of income classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of revenue and product costs are recorded in revenue and cost of sales, respectively, when the underlying hedged transaction affects net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. Results of hedges of both anticipated sales of U.S. dollar-denominated available-for-sale securities and anticipated intercompany transactions are recorded in other expense, net when the transaction occurs. Hedges of recorded balance sheet positions are recorded in other expense, net currently together with the transaction gain or loss from the hedged balance sheet position. Net foreign currency transaction gains and losses, which includes hedge results captured in revenues, cost of sales, selling and administrative expense and other expense, net, were a $304.3 million loss, a $180.9 million loss, and a $42.7 million gain for the years ended May 31, 2004, 2003, and 2002, respectively.

Premiums paid on options are initially recorded as deferred charges. The Company assesses effectiveness on options based on the total cash flows method and records total changes in the options' fair value to other comprehensive income to the degree they are effective.

As of May 31, 2004, $103.3 million of deferred net losses (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of May 31, 2004, the maximum term over which the Company is hedging exposures to the variability of cash flows for all forecasted and recorded transactions is 18 months.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified to net income when the forecasted transaction affects net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive loss will be recognized immediately in net income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in current-period net income. Any hedge ineffectiveness is recorded in current-period net income. Effectiveness for cash flow hedges is assessed based on forward rates.

For each of the years ended May 31, 2004 and 2003 the Company recorded in other expense, net an insignificant loss representing the total ineffectiveness of all derivatives. An insignificant gain was recorded in other expense, net for the year ended May 31, 2002. Net income for each of the years ended May 31, 2004, 2003 and 2002 was not materially affected due to discontinued hedge accounting.

Fair Value Hedges

The Company is also exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates. Derivatives currently used by the Company to hedge this risk are receive-fixed, pay-variable interest rate swaps.

Substantially all interest rate swap agreements are designated as fair value hedges of the related long-term debt and meet the shortcut method requirements under FAS 133. Accordingly, changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt. No ineffectiveness has been recorded to net income related to interest rate swaps designated as fair value hedges for the years ended May 31, 2004, 2003 and 2002.

As discussed in Note 7, during the year ended May 31, 2004, the Company issued a $50 million medium-term note maturing October 1, 2013 and simultaneously entered into a received-fixed, pay-variable interest rate swap with the same notional amount and fixed interest rate as the note. However, the swap expires October 2, 2006. This interest rate swap is not accounted for as a hedge, accordingly changes in the fair value of the swap are recorded to net income each period as a component of other expense, net. As of May 31, 2004, the recorded fair value of the swap was a $0.6 million loss.

During the year ended May 31, 2003 the Company also entered into an interest rate swap agreement related to a Japanese yen denominated intercompany loan with one of the Company's Japanese subsidiaries. The Japanese subsidiary pays variable interest on the intercompany loan based on 3-month LIBOR plus a spread. Under the interest rate swap agreement, the subsidiary pays fixed interest payments at 0.8% and receives variable interest payments based on 3-month LIBOR plus a spread based on a notional amount of 8 billion Japanese yen. This interest rate swap is not accounted for as a hedge, accordingly changes in the fair value of the swap are recorded to net income each period as a component of other expense, net. As of May 31, 2004, the recorded fair value of the swap was a $0.4 million gain. As of May 31, 2003, the recorded fair value of the swap was a $1.0 million loss.

The fair values of all derivatives recorded on the consolidated balance sheet are as follows:

(In millions)	2004	2003
Unrealized gains:		
Foreign currency exchange contracts, options and cross-currency swaps	$ 83.1	$ 71.5
Interest rate swaps	7.0	25.5
Unrealized (losses):		
Foreign currency exchange contracts, options and cross-currency swaps	(144.5)	(322.7)
Interest rate swaps	(3.9)	(1.0)

1.141

PFIZER INC (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Financial Instruments

D. Derivative Financial Instruments and Hedging Activities

Purpose

Foreign Exchange Risk

A significant portion of revenues, earnings and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected same currency revenues in relation to same currency costs and same currency assets in relation to same currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of derivative financial instruments and foreign currency debt. These financial instruments serve to protect net income and net investments against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. We entered into financial instruments to hedge or offset by the same currency an appropriate portion of the currency risk and the timing of the hedged or offset item. At December 31, 2004 and 2003, the more significant financial instruments employed to manage foreign exchange risk follow:

			Notional Amount (Millions of Dollars)		
Financial Instrument	Hedge Type	Hedged or Offset Item	2004	2003	Maturity Date
Forward-exchange contracts	—	Short-term foreign currency assets and liabilities[(a)]	$6,737	$ —	Through 2005
Forward-exchange contracts	—	Short-term foreign currency assets and liabilities[(a)]	—	7,203	Through 2004
Forward-exchange contracts	Cash flow	Euro available-for-sale investments	3,415	—	Through 2005
Forward-exchange contracts	Cash flow	Euro available-for-sale investments	—	2,388	Through 2004
Short-term yen borrowings	Net investment	Yen net investments	1,854	—	Through 2005
Short-term yen borrowings	Net investment	Yen net investments	—	1,539	Through 2004
Swaps	Cash flow	U.K. pound intercompany loan	793	714	2006
Swaps	Net investment	Yen net investments	758	—	2006
Long-term yen debt	Net investment	Yen net investments	585	559	2008
Forward-exchange contracts	Cash flow	Japanese yen intercompany loan	—	266	2004
Swaps	Cash flow	Japanese yen intercompany loan	—	260	2004

(a) Forward-exchange contracts used to offset short-term foreign currency assets and liabilities were primarily for intercompany transactions in euros, U.K. pound, Swedish krona, Japanese yen and Australian dollars for the year ended December 31, 2004 and euros, Japanese yen and Swedish krona for the year ended December 31, 2003.

Interest Rate Risk

Our interest-bearing investments, loans and borrowings are subject to interest rate risk. We invest and borrow primarily on a short-term or variable-rate basis. From time to time, depending on market conditions, we will fix interest rates either through entering into fixed rate investments and borrowings or through the use of derivative financial instruments.

At December 31, 2004 and 2003, the more significant derivative financial instruments employed to manage interest rate risk follow:

			Notional Amount (Millions of Dollars)		
Financial Instrument	Hedge Type	Hedged or Offset Item	2004	2003	Maturity Date
Swaps	Fair value	U.S. dollar fixed rate debt[(a)]	$5,147	$4,303	2004–2028
Swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt[(b)]	1,353	1,293	2006
Swaps	Fair value	U.S. dollar fixed rate investment[(c)]	175	590	2008
Swaps	Cash flow	"LIBOR" interest rate related to forecasted purchases of short-term fixed rate debt[(d)]	—	95	2004

(a) Serve to reduce exposure to long-term U.S. dollar interest rates by effectively converting fixed rates associated with long-term debt obligations to floating rates (see Note 8C, *Financial Instruments: Long-Term Debt* for details of maturity dates).

(b) Serve to reduce variability by effectively fixing the maximum rates on short-term debt at .8% in 2004 and .9% in 2003.

(c) Serve to reduce exposure to long-term U.S. dollar interest rates by effectively converting fixed rates associated with investments in available-for-sale debt securities to floating rates.

(d) Served to reduce the variability of LIBOR interest rates by effectively fixing the rates on short-term debt investments at 3.5%. Investments were classified as "Available-for-Sale."

Accounting Policies

All derivative contracts are reported at fair value, with changes in fair value reported in earnings or deferred, depending on the nature and effectiveness of the offset or hedging relationship, as follows:

Foreign Exchange Risk

- We recognize the earnings impact of foreign currency forward-exchange contracts during the terms of the contracts, along with the earnings impact of the items they generally offset.
- We recognize the earnings impact of foreign currency swaps and foreign currency forwards designated as cash flow hedges upon the recognition of the foreign exchange gain or loss on the translation to U.S. dollars of the hedged item.
- We recognize the earnings impact of foreign currency swaps designated as a hedge of our net investments in three ways: over time—for the periodic net swap payments; immediately—to the extent of any difference between the foreign exchange spot rate and forward rate; and, defer until the sale or substantial liquidation of our net investments—to the extent of change in the foreign exchange spot rates.
- We recognize the earnings impact of yen put options when the related inventory is sold to third-party customers.

Interest Rate Risk

- We recognize the earnings impact of interest rate swaps designated as cash flow hedges upon the recognition of the interest related to the hedged short-term debt and available-for-sale debt securities.
- We recognize the earnings impact of interest rate swaps designated as fair value hedges upon the recognition of the change in fair value for interest rate risk related to the hedged long-term debt and available-for-sale debt securities.

Any ineffectiveness in a hedging relationship is recognized immediately into earnings. There was no significant ineffectiveness in 2004 or 2003.

Financial Statement Presentation

The consolidated financial statements include the following items related to the derivatives serving as offsets or hedges:

Other assets, deferred taxes and deferred charges includes:

- fair value of interest rate swaps designated as fair value hedges and cash flow hedges

Other current liabilities includes:

- fair value of foreign currency forward-exchange contracts
- fair value of foreign currency swaps designated as cash flow hedges

Other noncurrent liabilities includes:

- fair value of interest rate swaps designated as fair value hedges and cash flow hedges
- fair value of foreign currency swaps designated as cash flow hedges
- fair value of foreign currency swaps designated as net investment hedges

Long-term debt includes:

- changes in the fair value of fixed rate debt hedged by interest rate swaps

Accumulated other comprehensive income/(expense) includes:

- changes in the fair value of foreign currency forward-exchange contracts designated as cash flow hedges
- changes in the fair value of interest rate swaps and foreign currency swaps designated as cash flow hedges
- changes in the fair value associated with changes in spot exchange rates of foreign currency swaps designated as net investment hedges

Other (income)/deductions—net includes:

- changes in the fair value of foreign currency forward-exchange contracts
- changes in the fair value of interest rate swap contracts designated as fair value hedges
- changes in the fair value associated with changes in the difference between the spot and forward exchange rates of foreign currency swaps designated as net investment hedges
- periodic accrued net swap payments related to foreign currency swap contracts

E (In Part): Fair Value

The following methods and assumptions were used to estimate the fair value of derivative and other financial instruments at the balance sheet date:

- derivative contracts—we use valuation models that use observable market quotes and our view of the creditworthiness of the derivative counterparty

The differences between the estimated fair values and carrying values of our financial instruments were not material at December 31, 2004.

1.142

PPG INDUSTRIES, INC. (DEC)

NOTES TO THE FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments

The Company recognizes all derivative instruments as either assets or liabilities at fair value on the balance sheet. The accounting for changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the derivative is deferred in other comprehensive income. Any portion considered to be ineffective will be reported in earnings immediately. To the extent that a derivative is effective as a hedge of an exposure to future changes in fair value, the change in the derivative's fair value will be offset in the statement of income by the change in fair value of the item being hedged.

9. Derivative Financial Instruments

PPG's policies do not permit speculative use of derivative financial instruments. PPG uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap contracts. PPG also uses forward currency and option contracts as hedges against its exposure to variability in exchange rates on short-term intercompany borrowings and cash flows denominated in foreign currencies and to translation risk. Interest rate swaps are used to manage the Company's exposure to changing interest rates. We also use an equity forward arrangement to hedge a portion of our exposure to changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 13.

PPG enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company has not experienced any credit losses on derivatives during the three-year period ended Dec. 31, 2004.

PPG manages its foreign currency transaction risk to minimize the volatility of cash flows caused by currency fluctuations by forecasting foreign currency-denominated cash flows of each subsidiary for a 12-month period and aggregating these cash inflows and outflows in each currency to determine the overall net transaction exposures. Decisions on whether to use derivative financial instruments to hedge the net transaction exposures are made based on the amount of those exposures, by currency, and an assessment of the near-term outlook for each currency. The Company's policy permits the use of foreign currency forward and option contracts to hedge up to 70% of its anticipated net foreign currency cash flows over the next 12-month period. These contracts do not qualify for hedge accounting under the provisions of SFAS No. 133; therefore, the change in the fair value of these instruments is recorded in "Other charges" in the accompanying statement of income in the period of change. The amounts recorded in earnings for the years ended Dec. 31, 2004, 2003 and 2002 were losses of $1 million, $5 million and $3 million, respectively. The fair value of these contracts was not material as of Dec. 31, 2004 and 2003.

The sales, costs, assets and liabilities of our non-U.S. operations must be reported in U.S. dollars in order to prepare consolidated financial statements which gives rise to translation risk. The Company monitors its exposure to translation risk and enters into derivative foreign currency contracts to hedge its exposure, as deemed appropriate. This risk management strategy does not qualify for hedge accounting under the provisions of SFAS No. 133; therefore, changes in the fair value of these instruments are recorded in "Other charges" in the accompanying statement of income in the period of change. No derivative instruments were acquired to hedge translation risk during 2004 or 2002. A loss of $1 million was recorded for the year ended Dec. 31, 2003.

In 2004, the Company entered into a foreign currency contract to hedge a portion of a net investment in a foreign operation. An unrealized currency translation adjustment of $5 million from the deferred loss on this contract is recorded in accumulated other comprehensive income.

PPG designates forward currency contracts as hedges against the Company's exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies. To the extent effective, changes in the fair value of these instruments are deferred in accumulated other comprehensive income and subsequently reclassified to "Other charges" in the accompanying statement of income as foreign exchange gains and losses are recognized on the related intercompany borrowings. The portion of the change in fair value considered to be ineffective is recognized in "Other charges" in the accompanying statement of income. The amounts recorded in earnings for the years ended Dec. 31, 2004, 2003 and 2002, were losses of $5 million, $4 million and $2 million, respectively. The fair value of these contracts was an asset of $2 million and $1 million as of Dec. 31, 2004 and 2003, respectively.

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. Generally, the Company maintains variable interest rate debt at a level of 25% to 50% of total borrowings. PPG principally manages its fixed and variable interest rate risk by retiring and issuing debt from time to time. PPG also manages its interest rate risk through the use of interest rate swaps. Currently, these swaps convert $643 million of fixed rate debt to variable rate debt and are designated as fair value hedges. As such, the swaps are carried at fair value. Changes in the fair value of these swaps and that of the related debt are recorded in "Interest expense" in the accompanying statement of income, the net of which is zero The fair value of these contracts was an asset of $4 million and $9 million as of Dec. 31, 2004 and 2003, respectively.

The Company uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap contracts. These instruments mature over the next twelve months. To the extent that these instruments are effective in hedging PPG's exposure to price changes, changes in the fair values of the hedge contracts are deferred in accumulated other comprehensive income and reclassified to cost of sales as the natural gas is purchased. The amount of ineffectiveness, which is reported in "Cost of sales" in the accompanying statement of income for the year ended Dec. 31, 2004, was $1 million of expense and for the years ended Dec. 31, 2003 and 2002 was $1 million of income. The fair value of these contracts was a liability of $2 million and an asset of $3 million as of Dec. 31, 2004 and 2003, respectively.

In November 2002, PPG entered into a one-year renewable equity forward arrangement with a bank in order to partially mitigate the impact of changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 13. This instrument, which has been renewed, is recorded at fair value as an asset or liability and changes in the fair value of this instrument are reflected in "Asbestos settlement–net" in the accompanying statement of income. As of Dec. 31, 2004 and 2003, PPG had recorded a current asset of $19 million and $15 million, respectively, and recognized income of $4 million, $14 million and $1 million for the years ended Dec. 31, 2004, 2003 and 2002, respectively.

In accordance with the terms of this instrument the bank had purchased 504,900 shares of PPG stock on the open market at a cost of $24 million through Dec. 31, 2002, and during the first quarter of 2003 the bank purchased an additional 400,000 shares at a cost of $19 million, for a total principal amount of $43 million. PPG will pay to the bank interest based on the principal amount and the bank will pay to PPG an amount equal to the dividends paid on these shares during the period this instrument is outstanding. The difference between the principal amount, and any amounts related to unpaid interest or dividends, and the current market price for these shares will represent the fair value of the instrument as well as the amount that PPG would pay or receive if the bank chose to net settle the instrument. Alternatively, the bank may, at its option, require PPG to purchase the shares covered by the arrangement at the market price on the date of settlement.

No derivative instrument initially designated as a hedge instrument was undesignated or discontinued as a hedging instrument during 2004 or 2003. For the year ended Dec. 31, 2004, other comprehensive income included a net loss due to derivatives of $3 million, net of tax. This loss was comprised of realized gains of $5 million and unrealized gains of $2 million. The realized gains related to the settlement during the period of natural gas and foreign currency contracts offset in part by the settlement of interest rate swaps owned by one of the Company's investees accounted for under the equity method of accounting. The unrealized gains related to these same instruments. For the year ended Dec. 31, 2003, other comprehensive income included a net loss of $13 million, net of tax. This loss was comprised of realized gains of $28 million and unrealized gains of $15 million. The realized gains related to the settlement during the period of natural gas and foreign currency contracts. The unrealized gains during the period related primarily to the change in fair value of the natural gas contracts.

The fair values of all outstanding derivative instruments were determined using quoted market prices.

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SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

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

Financial Instruments

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

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

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

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

Fair Value Hedge

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

Cash Flow Hedge

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

Net Investment Hedge

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

Natural Hedge

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

Note 15 (In Part): Financial Instruments and Risk Management

Interest Rate and Currency Swaps

To manage interest rate risk, the corporation has entered into interest rate swaps that effectively convert certain fixed-rate debt instruments into floating-rate instruments or that fix the interest payments of certain floating-rate debt instruments. Interest rate swap agreements are accounted for as fair value or cash flow hedges. The fair value of interest rate and currency swaps is determined based upon externally developed pricing models, using financial market data obtained from swap dealers.

	Notional Principal[(1)]	Weighted Average Interest Rates[(2)] Receive	Pay
Interest rate swaps			
2004 receive fixed—pay variable	$1,725	4.9%	3.1%
2003 receive fixed—pay variable	887	5.6	2.2
2002 receive fixed—pay variable	1,202	7.2	4.8
Currency swaps			
2004 receive fixed—pay fixed	$ 683	5.1%	5.0%
receive variable—pay variable	248	2.5	1.7
2003 receive fixed—pay fixed	380	6.3	6.0
receive variable—pay variable	248	2.7	1.7
2002 receive fixed—pay fixed	337	6.2	6.2

(1) The notional principal is the amount used for the calculation of interest payments that are exchanged over the life of the swap transaction and is equal to the amount of foreign currancy of dollar principal exchanged at maturtty, if applicable.

(2) The weighted average interest rates are as of the respective balance sheet dates.

Forward Exchange, Futures and Option Contracts

The corporation uses forward exchange and option contracts to reduce the effect of fluctuating foreign currencies on short-term foreign-currency-denominated intercompany transactions, third-party product sourcing transactions, foreign-denominated investments and other known foreign currency exposures. Gains and losses on the derivative are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The principal currencies hedged by the corporation include the European euro, Mexican peso, Swiss franc, Canadian dollar and British pound.

The corporation uses futures contracts to hedge commodity price risk. The principal commodities hedged by the corporation include hogs, beef, coffee, wheat, butter and corn. The corporation does not use significant levels of commodity financial instruments to hedge commodity prices. In circumstances where commodity derivative instruments are used, there is a high correlation between the commadity costs and the derivative instrument.

The following table summarizes by major currency the contractual amounts of the corporation's forward exchange contracts in U.S. dollars. The bought amounts represent the net U.S. dollar equivalent of commitments to purchase foreign currencies, and the sold amounts represent the net U.S. dollar equivalent of commitments to sell foreign currencies. The foreign currency amounts have been translated into a U.S. dollar equivalent value using the exchange rate at the reporting date. Forward exchange contracts mature at the anticipated cash requirement date of the hedged transaction, generally within one year.

	2004	2003	2002
Foreign currency—bought (sold)			
European euro	$1,685	$403	$ 813
British pound	(6)	(94)	(210)
Swiss franc	92	66	48
Canadian dollar	(66)	(82)	(91)
Other	162	49	(64)

The corporation held foreign exchange option contracts to reduce the foreign exchange fluctuations on anticipated purchase transactions. The following table summarizes the notional amount of option contracts to sell foreign currency, in U.S. dollars:

	2004	2003	2002
Foreign currency—sold			
European euro	$792	$628	$383
Mexican peso	33	34	55
British pound	48	13	61

The following table summarizes the net derivative gains or losses deferred into accumulated other comprehensive income and reclassified to earnings in 2004, 2003 and 2002.

	2004	2003	2002
Net accumulated derivative gain (loss) deferred at beginning of year	$(17)	$(14)	$ (5)
Deferral of net derivative gain (loss) in accumulated other comprehensive income	(38)	(38)	(13)
Reclassification of net derivative (gain) loss to income	41	35	4
Net accumulated derivative gain (loss) at end of year	$(14)	$(17)	$(14)

At July 3, 2004, the maximum maturity date of any cash flow hedge was one year, excluding any forward exchange, option or swap contracts related to the payment of variable interest on existing financial instruments. The corporation expects to reclassify into earnings during the next 12 months net gains from accumulated other comprehensive income of approximately $2 at the time the underlying hedged transactions are realized. During the year ended July 3, 2004, net losses related to cash flow and fair value hedge ineffectiveness, derivative losses excluded from the assessment of effectiveness, and gains or losses resulting from the disqualification of hedge accounting are insignificant in all years presented.

Non-U.S. Dollar Financing Transactions

The corporation uses non-U.S. dollar financing transactions as net investment hedges of long-term investments in the corresponding foreign currency. Hedges that meet the effectiveness requirements are accounted for under net investment hedging rules. For the year ended July 3, 2004, net losses of $100 arising from effective hedges of net investments have been reflected in the cumulative translation adjustment account within common stockholders' equity.

Fair Values

The carrying amounts of cash and equivalents, trade accounts receivable, notes payable and accounts payable approximated fair value as of July 3, 2004, June 28, 2003 and June 29, 2002. The fair values of the remaining financial instruments recognized on the Consolidated Balance Sheets of the corporation at the respective year ends were:

	2004	2003	2002
Long-term debt, including current portion	$5,358	$6,512	$5,158
ESOP convertible preferred stock	—	450	515
Interest rate swaps	8	60	15
Currency swaps	(92)	(46)	(31)
Foreign currency forwards	(3)	(22)	(10)
Foreign currency options	1	8	4

The fair value of the corporation's long-term debt, including the current portion, is estimated using discounted cash flows based on the corporation's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the ESOP preferred stock is based on the contracted conversion into the corporation's common stock. The fair value of interest rate and currency swaps is determined based upon externally developed pricing models, using financial market data obtained from swap dealers. The fair value of foreign currency forwards and options is based upon currency forward rates obtained from third-party institutions.

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SNAP-ON INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Accounting Policies

Derivatives

Snap-on utilizes derivative financial instruments, including interest rate swaps and foreign exchange contracts, to manage its exposure to interest rate and foreign currency exchange rate risks. Snap-on accounts for its derivatives in accordance with SFAS No. 133. "*Accounting for Derivative Instruments and Hedging Activities*." as amended by SFAS No. 138 and SFAS No. 149. Snap-on does not hold or issue financial instruments for speculative or trading purposes. Refer to Note 11 for additional information.

Note 11 (In Part): Financial Instruments

Snap-on accounts for its hedging activities under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended by SFAS No. 138 and SFAS No. 149. These standards require that all derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or on the accompanying Consolidated Balance Sheets in "Accumulated other comprehensive income (loss)," depending on the type of hedged transaction and whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments reported in "Accumulated other comprehensive income (loss)" must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the current period.

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for speculative or trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure, (ii) whether or not overall risk is being reduced, and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation. On the date a derivative contract is entered into, Snap-on designates the derivative as either a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the values of the hedged item.

Foreign Currency Derivative Instruments

Snap-on has operations in a number of countries that have transactions outside their functional currencies and, as a result, is exposed to changes in foreign currency exchange rates. In addition. Snap-on hedges the anticipated repayment of intercompany loans to foreign subsidiaries denominated in foreign currencies. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Forward exchange contracts are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

At January 1, 2005, Snap-on had net outstanding foreign exchange forward contracts to sell $11.3 million comprised of buy contracts of $78.0 million in Swedish kronor, $19.3 million in Canadian dollars, $15.2 million in Australian dollars, $1.9 million in Taiwan dollars and $1.5 million in Swiss francs and sell contracts of $73.3 million in euros, $29.7 million in British pounds, $12.3 million in Singapore dollars, $3.2 million in Danish kronor, $2.9 million in Hungarian forints, $2.1 million in Norwegian kroner, $1.0 million in Japanese yen, $0.8 million in Polish zlotys, $0.6 million in Mexican pesos, $0.6 million in New Zealand dollars and $0.7 million in other currencies. At January 3, 2004, Snap-on had net outstanding foreign exchange forward contracts to sell $84.0 million comprised of buy contracts of $72.8 million in Swedish kronor, $3.2 million in Taiwan dollars and $0.6 million in other currencies and sell contracts of $72.8 million in euros, $43.3 million in British pounds, $11.8 million in Canadian dollars, $10.2 million in Japanese yen, $8.9 million in Singapore dollars, $5.7 million in Danish kronor, $4.3 million in Norwegian kroner, $2.3 million in Mexican pesos and $1.3 million in Australian dollars.

The majority of Snap-on's forward exchange contracts are not designated as hedges under SFAS No. 133. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in "Other income (expense)–net" on the accompanying Consolidated Statements of Earnings. Forward exchange contracts that qualify for hedge accounting treatment are accounted for as cash flow hedges where the effective portion of the changes in fair value of the derivative is recorded in "Accumulated other comprehensive income (loss)." When the hedged item is realized in income, the gain or loss included in "Accumulated other comprehensive income (loss)" is reclassified to income in the same financial statement caption as the hedged item. For all cash flow hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative gain at January 1, 2005, was $0.5 million. At January 1, 2005, the maximum maturity date of any cash flow hedge was approximately 14 months. During the next 12 months. Snap-on expects to reclassify into earnings net gains from "Accumulated other comprehensive income (loss)" of approximately $0.4 million after tax at the time the underlying hedged transactions are realized. The ineffective portion of changes in fair value of the cash flow hedges are reported in earnings as foreign exchange gain or loss, which is included in "Other income (expense)–net" and which were not material.

Non-Derivative Instruments Designated in Hedging Relationships

Snap-on uses non-U.S. dollar financing transactions as net investment hedges of long-term investments in the corresponding foreign currency. Hedges that meet the effectiveness requirements are accounted for under net investment hedging rules. The effective portion of the net investment hedge of a foreign operation is recorded in "Accumulated other comprehensive income (loss)" as a cumulative translation adjustment. When applicable, the ineffective portion of the net investment hedge is recorded in earnings as foreign exchange gain or loss, which is included in "Other income (expense)–net" and which were not material. At January 1, 2005, net losses of $0.4 million arising from effective hedges of net investments have been reflected in the cumulative translation adjustment account as a component of "Accumulated other comprehensive income (loss)."

Interest Rate Swap Agreements

Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swap agreements are accounted for as either cash flow hedges or fair value hedges. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense. For fair value hedges, the effective portion of the change in fair value of the derivative is recorded in "Low-term debt" on the accompanying Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to interest expense. For cash flow hedges, the effective portion of the change in fair value of the derivative is recorded in "Accumulated other comprehensive income (loss)," while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps was $75 million at January 1, 2005, and included $50 million of fair value hedges and $25 million of cash flow hedges. The notional amount of interest rate swaps was $75 million at both January 1, 2005, and January 3, 2004, and included $50 million of fair value hedges and $25 million of cash flow hedges.

In June 2003, Snap-on received proceeds of $5.1 million for the termination of a $25 million interest rate swap that was a fair value hedge for a portion of its $200 million, 6.25% long-term notes. The $5.1 million is being amortized to income using the effective interest rate method over the remaining life of the notes, which mature on August 15, 2011. At the same time, Snap-on entered into a new $25 million interest rate swap to hedge that same portion of these notes.

For all cash flow hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at January 1, 2005, was $0.2 million, after tax, and is reflected in "Accumulated other comprehensive income (loss)." Changes in the fair value of derivative financial instruments qualifying for hedge accounting under SFAS No. 133, are reflected as derivative assets or liabilities with the corresponding gains or losses reflected in earnings in the period of change. An offsetting gain or loss is also reflected in earnings based upon the changes of the fair value of the debt instrument being hedged. For all fair value hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at January 1, 2005, was $1.0 million. At January 1, 2005, the maximum maturity date of any cash flow hedge and fair value hedge was approximately three months and seven years, respectively. During the next 12 months. Snap-on expects to reclassify into earnings net losses from "Accumulated other comprehensive income (loss)" of approximately $0.2 million after tax at the time the underlying hedged transactions are realized. During the year ended January 1, 2005, cash flow hedge and fair value hedge ineffectiveness was not material.

Fair Value of Financial Instruments (In Part)

SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments*," requires Snap-on to disclose the fair value of financial instruments for both on- and off-balance-sheet assets and liabilities for which it is practicable to estimate that value. The following methods and assumptions were used in estimating the fair value of financial instruments:

All Other Financial Instruments

The carrying amounts of all cash equivalents, interest rate swaps and forward exchange contracts approximate fair value based upon quoted market prices or discounted cash flows. The fair value of trade accounts receivables, accounts payable and other financial instruments approximates carrying value due to their short-term nature.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees

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ALCOA INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

N (In Part): Commitments and Contingencies

Aluminio is a participant in several hydroelectric power construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities. The completed and committed hydroelectric construction projects that Aluminio participates in are outlined in the following tables.

Completed Projects	Date Completed	Investment Participation	Share of Output	Debt Guarantee	Debt Guarantee Through 2013
Machadinho	2002	27.23%	22.62%	35.53%	$105

Aluminio committed to taking a share of the output of the completed Machadinho project for 30 years at cost (including cost of financing the project). In the event that other participants in this project fail to fulfill their financial responsibilities, Aluminio may be required to fund a portion of the deficiency. In accordance with the agreement, if Alumino funds any such deficiency, its participation and share of the output from the project will increase proportionately.

Committed Projects	Scheduled Completion Date	Share of Output	Investment Participation	Total Estimated Project Costs	Aluminio's Share of Project Costs	Performance Bond Guarantee
Barra Grande	2006	42.20%	42.20%	$449	$189	$ 6
Pai-Querê	2008	35.00%	35.00%	$261	$ 91	$ 2
Estreito	2009	19.08%	19.08%	$741	$141	$11
Serra do Facão		39.50%	39.50%	$218	$ 86	$ 4

These projects were committed to during 2001 and 2002, and the Barra Grande project commenced construction in 2002. At December 31, 2004, approximately 60% of the long-term financing for the Barra Grande project was obtained, of which Aluminio guaranteed 42.20% based on its investment participation. The plans for financing the other projects have not yet been finalized. It is anticipated that a portion of the project costs will be financed with third parties. Aluminio may be required to provide guarantees of project financing or commit to additional investments as these projects progress.

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AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11 (In Part): Debt

The Company has one primary bank credit agreement. That agreement provides the Company and certain subsidiaries (the "Borrowers") with a senior, unsecured, five-year $1 billion multi-currency revolving credit facility that expires in November 2006. The Company also has a Euro-denominated, 364-day bank credit agreement of approximately $55 million (at December 31, 2004 exchange rates) that expires on October 31, 2005, and that was not utilized as of December 31, 2004. Debt outstanding of $50 million under that agreement was classified as long-term debt in the balance sheet as of December 31, 2003, because the Company had the ability and the intent to renew it or to refinance it with borrowings under the five-year facility. In addition, the Company has other lines of credit for $325 million.

Debt securities (Senior Notes) sold under the 1998 Shelf Registration are issued by American Standard Inc. and unconditionally guaranteed by American Standard Companies Inc. and ASII.

Long-Term (In Part)

Long-term debt is recorded at face amount, net of unamortized discount and the fair value of interest-rate swaps, and debt denominated in foreign currencies is reported at its U.S. dollar equivalent as follows:

(Dollars in millions)	2004	2003
Five-year credit agreement expiring 2006	$ 35.0	$ 210.0
364-day Euro-denominated credit agreement	—	50.5
7.3/8% senior notes due 2005	208.5	210.4
7.125% Euro senior notes due 2006	332.8	307.6
7 3/8% senior notes due 2008	328.8	334.6
8.25% senior notes due 2009	97.4	97.4
8.25% Sterling senior notes due 2009	115.2	106.3
7 5/8% senior notes due 2010	260.9	260.8
7.59% Euro senior bonds due 2013	40.9	37.9
Other long-term debt	11.8	13.8
	1,431.3	1,629.3
Less current maturities	2.2	2.5
Total long-term debt	$1,429.1	$1,626.8

The U.S. Dollar equivalent of borrowings outstanding under all bank credit agreements at December 31, 2004 and 2003, and the effective weighted-average interest rates were:

(Dollars in millions)	2004	2003
Loans at U.S. dollar equivalent at 3.44% in 2004; 2.65% in 2003	$35.0	$260.5

None of the Senior Notes outstanding as of December 31, 2004, are redeemable by the Company prior to maturity. In January 2003, a European subsidiary of the Company issued €30 million ($41 million at December 31, 2004 exchange rates) of 7.59% Guaranteed Senior Bonds due 2013 in a private placement as part of some changes in the financial structure and organization of its European subsidiaries. The bonds are guaranteed by the Company. The proceeds were used to repay borrowings under bank credit agreements.

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The Company, American Standard Inc., American Standard International Inc. and certain of their domestic subsidiaries guarantee obligations under the primary bank credit agreement. In addition, significant foreign subsidiaries guarantee obligations of certain foreign borrowers under the bank credit agreement.

Note 14 (In Part): Warranties, Guarantees, Commitments and Contingencies

The Company has commitments and performance guarantees, including energy savings guarantees totaling $55 million extending from 2005 to 2022, under long-term service and maintenance contracts related to its air conditioning equipment and system controls. Through 2004 the Company has only experienced one insignificant loss under such arrangements and considers the probability of any significant future losses to be unlikely.

The Company fully and unconditionally guarantees the payment obligations under all the Company's Senior Notes that were issued by its wholly-owned subsidiary American Standard Inc. The Company also guarantees other debt obligations issued by other subsidiaries, including obligations under a $55 million Euro-denominated credit facility and $41 million of Euro-denominated Senior Bonds. See Note 11 of Notes to Financial Statements. The Company also guarantees debt of third parties in the amount of $3 million as of December 31, 2004.

1.147

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

O (In Part): Contingencies and Commitments

Commitments (In Part)

The company has applied the disclosure provisions of FIN 45 to its agreements that contain guarantee or indemnification clauses. These disclosure provisions expand those required by SFAS No. 5, by requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in which the company is the guarantor.

The company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the company, under which the company customarily agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to such matters as title to assets sold, certain IP rights, specified environmental matters, and certain income taxes. In each of these circumstances, payment by the company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the company to challenge the other party's claims. Further, the company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the company may have recourse against third parties for certain payments made by the company.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the company under these agreements have not had a material effect on the company's business, financial condition or results of operations. The company believes that if it were to incur a loss in any of these matters, such loss should not have a material effect on the company's business, financial condition or results of operations.

In addition, the company guarantees certain loans and financial commitments. The maximum potential future payment under these financial guarantees was $58 million and $74 million at December 31, 2004 and 2003, respectively. These amounts include the limited guarantee associated with the company's Ipans receivable securitization program.

1.148

MCKESSON CORPORATION (MAR)

FINANCIAL NOTES

17 (In Part): Financial Guarantees and Warranties

Financial Guarantees

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. We have also guaranteed loans, credit facilities and the payment of leases for some customers; and we are a secured lender for substantially all of these guarantees. Customer guarantees range from one to ten years and were primarily provided to facilitate financing for certain, strategic customers. At March 31, 2004, the maximum amounts of inventory repurchase guarantees and other customer guarantees were $169.1 million and $57.9 million of which a nominal amount had been accrued.

In 2004, a Pharmaceutical Solutions customer filed for bankruptcy. Accordingly, we reviewed all amounts owed to us from this customer as well as financial guarantees provided to third parties in favor of this customer, and as a result, we increased our provision for doubtful accounts by $30.0 million. On April 21, 2004, we converted a $40.0 million credit facility guarantee in favor of this customer to a note receivable due from this customer. This secured note bears interest and is repayable in 2007. In conjunction with this modification, an inventory repurchase guarantee in favor of this customer for approximately $12 million has been terminated.

At March 31, 2004, we had commitments of $12.4 million, primarily consisting of the purchase of services from our equity-held investments, for which no amounts had been accrued.

The expirations of the above noted financial guarantees and commitments are as follows: $78.7 million, $27.7 million, $7.0 million, $1.9 million and $1.6 million from 2005 through 2009, and $122.5 million thereafter.

In addition, our banks and insurance companies have issued $65.4 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe on a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

1.149

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

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

Guarantees

The company and its subsidiaries occasionally provide guarantees that could obligate them to make future payments if the primary entity fails to perform under its contractual obligations. The company has not recorded a liability for these guarantees. The company has no recourse as guarantor in case of default.

International provides a full and unconditional guarantee on the $400 million 9 3/8% Senior Notes due 2006, the $250 million 7.5% Senior Notes due 2011 and the $190 million 2.5% Senior Convertible Notes due 2007. NIC also provides a guarantee on the $19 million 9.95% Senior Notes due 2011. As of October 31, 2004, the outstanding balance on the 9.95% Senior Notes was $13 million.

NIC and International are obligared under certain agreements with public and private lenders of NFC to maintain the subsidiary's income before interest expense and income taxes at not less than 125% of its total interest expense. No income maintenance payments were required for any of the three years in the period ended October 31, 2004.

NIC guarantees lines of credit made available to its Mexican finance subsidiaries by third parties and NFC. NFC guarantees the borrowings of the Mexican finance subsidiaries. The following table summarizes the borrowings as of October 31, 2004, in millions of dollars.

Entity	Amount of Guaranty	Outstanding Balance	Maturity Dates Extend To
NIC	$393	$ 80	2009
NFC	$118	$109	2007
NIC and NFC	$100	$ 25	2005

The company also guarantees many of the operating leases of its subsidiaries. The leases have various expiration dates that extend through June 2014. The remaining maximum obligations under these leases as of October 31, 2004, totaled approximately $606 million.

The company and International also guarantee real estate operating leases of International and the subsidiaries of the company. The leases have various maturity dates extending out through 2019. As of October 31, 2004, the total remaining obligation under these leases is approximately $45 million.

The company and NFC have issued residual value guarantees in connection with various operating leases. The amount of the guarantees is undeterminable because in some instances, neither the company nor NFC is responsible for the entire amount of the guaranteed lease residual. The company's and NFC's guarantees are contingent upon the fair value of the leased assets at the end of the lease term. The excess of the guaranteed lease residual value over the fair value of the residual represents the amount of the company's and NFC's exposure.

As of October 31, 2004, NFC had guaranteed derivative contracts for interest rate swaps and cross currency swaps related to two of the company's Mexican finance subsidiaries. NFC is liable up to the fair market value of these derivative contracts only in cases of default by the two Mexican finance subsidiaries. As of October 31, 2004, there was an outstanding notional balance of $54 million related to interest rate swaps and cross currency swaps, and the fair market value of the outstanding balance was immaterial.

At October 31, 2004, the Canadian operating subsidiary was contingently liable for $407 million of retail customers' contracts and $41 million of retail leases that are financed by a third party. The Canadian operating subsidiary is responsible for the residual values of these financing arrangements. These contract amounts approximate the resale market value of the collateral underlying the note liabilities.

In addition, the company entered into various guarantees for purchase commitments, insurance loss reserves, credit guarantees and buyback programs with various expiration dates that total approximately $84 million. In the ordinary course of business, the company also provides routine indemnifications and other guarantees whose terms range in duration and often are not explicitly defined. The company does not believe these will have a material impact on the results of operations or financial condition of the company.

1.150

TYLER TECHNOLOGIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Indemnification

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee or indemnification. FIN 45 also requires additional disclosure by a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees and indemnifications. The following summarizes the agreements we have determined are within the scope of FIN 45:

Most of our software license agreements indemnify our customers in the event that the software sold infringes upon the intellectual property rights of a third party. These agreements typically provide that in such event we will either modify or replace the software so that it becomes non-infringing or procure for the customer the right to use the software. We have recorded no liability associated with this indemnification, as we are not aware of any pending or threatened infringement actions that are possible losses. We believe the estimated fair value of these intellectual property indemnification clauses is minimal.

We have also agreed to indemnify our officers and board members if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. A form of the indemnification agreement is filed as Exhibit 10.1 to our Form 10-K for the year ended December 31, 2002. We maintain directors' and officers' insurance coverage to protect against any such losses. We have recorded no liability associated with these indemnifications as we are not aware of any pending or threatened actions or claims against any officer or board member. As a result of the insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal.

Letters of Credit

1.151

THE MANITOWOC COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Debt

In May 2001, the company entered into a $475 million Senior Credit Facility (Senior Credit Facility) maturing in May 2007. The Senior Credit Facility is comprised of a $175 million Term Loan A Facility, a $175 million Term Loan B Facility and a $125 million Revolving Credit Facility. As a result of scheduled payments and prepayments made since 2001, the company had no amounts outstanding under its Term Loan A Facility or Term Loan B Facility as of December 31, 2004 and the company had no amount outstanding under the Revolving Credit Facility as of December 31, 2004 or 2003. Substantially all domesic, tangible and intangible assets of the company and its subsidiaries are pledged as collateral under the Senior Credit Facility.

Borrowings under the Senior Credit Facility bear interest at a rate equal to the sum of a base rate or a Eurodollar rate plus an applicable margin, which is based on the company's consolidated total leverage ratio, as defined by the Senior Credit Facility. The annual commitment fee in effect on the unused portion of the company's. Revolving Credit Facility was 0.5% at December 31, 2004. The company had $92.2 million of unused availability under the terms of its Revolving Credit Facility at December 31, 2004 due to the impact on this borrowing availability of $32.8 million of outstanding letters of credit.

14 (In Part): Contingencies and Significant Estimates

At December 31, 2004, the company is contingently liable under open standby letters of credit issued by the company's bank in favor of third parties totaling $32.8 million primarily related to business in the Marine segment.

Sale of Receivables With Recourse

1.152

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Accounts Receivable and Allowance for Doubtful Accounts

The Company carries its accounts receivable at their face amounts less an allowance for doubtful accounts. On a regular basis, the Company records an allowance for uncollectible receivables based upon known bad debt risks and records general reserves based on past loss history, customer payment practices and economic conditions. Actual collection experience may differ from the current estimate of net receivables. A change to the allowance for doubtful accounts may be required if a future event or other change in circumstances results in a change in the estimate of the ultimate collectibility of a specific account. 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*. These accounts receivable and related obligations of $45.7 and $28.4 million at December 31, 2004 and 2003, respectively, were included in Accounts and Notes Receivable and Accrued Expenses, respectively.

7. Financial Services

In 2002, the Company established a joint venture, Brunswick Acceptance Company, LLC (BAC), with Transamerica Commercial Finance Corporation (TCFC). In January of 2004, GE Commercial Finance (GECF) acquired the commercial finance business of Transamerica, including TCFC.

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 boatbuilder 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 records BFS's share of income or loss in BAC based on its ownership percentage in the joint venture in Other Income in its Consolidated Statements of Income.

In 2004 and 2003, the Company sold $927.4 million and $501.2 million, respectively, of receivables to BAC for $920.7 million and $497.5 million, respectively, in cash, net of discount. The Company began selling receivables to BAC in the third quarter of 2003. Discounts of $6.4 million and $3.7 million for the years ended December 31, 2004 and 2003, respectively, were recorded as an expense in Other Income in the Consolidated Statements of Income. The outstanding balance for receivables sold to BAC was $103.7 million as of December 31, 2004, up from $74.7 million at December 31, 2003. BAC will continue to purchase and service a significant portion of Mercury Marine's domestic accounts receivable on an ongoing basis. Pursuant to the joint venture agreement, BAC reimbursed Mercury Marine $2.3 million and $0.9 million in 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, 2004 and 2003, the Company has a retained interest in $45.7 million and $28.4 million of the total accounts receivable sold to BAC that are recorded in Accounts and Notes Receivable, and Accrued Expenses in the Consolidated Balance Sheets. The Company's maximum exposure as of December 31, 2004 and 2003 related to these amounts is $25.0 million and $14.9 million, respectively, which is included in the amounts in *Note 9, Commitments and Contingencies*. 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.

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, 2004, was $35.9 million. 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 $4.3 million and $1.5 million for the years ended December 31, 2004 and 2003, respectively.

9 (In Part): Commitments and Contingencies

Financial Commitments

The Company has entered into 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 $106 million and approximately $100 million at December 31, 2004 and 2003, respectively.

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 $188 million and approximately $185 million at December 31, 2004 and 2003, respectively.

Based on historical experience and current facts and circumstances, and in accordance with FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," the Company has reserves to cover potential losses associated with these guarantee and repurchase obligations. Historical cash requirements and losses associated with these obligations have not been significant.

1.153

MILACRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables

During several preceding years and through March 12, 2004, the company maintained a receivables purchase agreement with a third party financial institution. Under this arrangement, the company sold, on a revolving basis, an undivided percentage ownership interest in designated pools of accounts receivable. As existing receivables were collected, undivided interests in new eligible receivables were sold. Accounts that became 60 days past due were no longer eligible to be sold and the company was at risk for credit losses for which the company maintained a reserve for doubtful accounts sufficient to cover estimated expenses. At December 31, 2003, approximately $33 million of accounts receivable related to continuing operations had been sold under this arrangement. This amount is reported as a reduction of accounts receivable in the Consolidated Balance Sheet at that date. On March 12, 2004, all amounts sold by the company under the receivables purchase agreement were repurchased using a portion of the proceeds of the refinancing transactions entered into on that date (see Refinancing Transactions). The effect was to increase the use of cash from operating activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2004 by $33 million.

During the period the receivables purchase agreement was in effect, increases and decreases in the amount sold were reported as operating cash flows in the Consolidated Statements of Cash Flows. Costs related to the sales were $.2 million in 2004, $1.5 million in 2003 and $1.2 million in 2002. These amounts are included in other expense–net in the Consolidated Statements of Operations.

Certain of the company's subsidiaries also sell accounts receivable on an ongoing basis. In some cases, these sales are made with recourse, in which case appropriate reserves for potential losses are recorded at the sale date. At December 31, 2004 and December 31, 2003, the gross amounts of accounts receivable that had been sold under these arrangements totaled $6.6 million and $3.8 million, respectively. At December 31, 2004 and December 31, 2003, certain of these amounts were partially collateralized with approximately $5.3 million and $3.0 million, respectively, of cash deposits that are included in cash and cash equivalents in the Consolidated Balance Sheets at those dates.

The company also periodically sells with recourse notes receivable arising from customer purchases of plastics processing machinery and, in a limited number of cases, guarantees the repayment of all or a portion of notes payable by its customers to third party lenders. At December 31, 2004 and December 31, 2003, the company's maximum exposure under these arrangements totated $8.0 million and $11.6 million, respectively. In the event a customer were to fail to repay a note, the company would generally regain title to the machinery for later resale as used equipment. Costs related to sales of notes receivable and guarantees have not been material in the past.

Liabilities (In Part)

Refinancing Transactions (In Part)

On March 12, 2004, the company also reached a separate agreement with Credit Suisse First Boston for a $140 million credit facility having a term of approximately one year. This senior secured credit facility consisted of a $65 million revolving A facility and a $75 million term loan B facility. On March 12, 2004, extensions of credit under the facility in an aggregate amount of $84 million were utilized to repay and terminate the company's then-existing revolving credit facility (in addition to replacing or providing credit support for outstanding letters of credit) and its then-existing receivables purchase program. As discussed below, all borrowings under the Credit Suisse First Boston facility were repaid on June 10, 2004.

DISCLOSURES OF FAIR VALUE

1.154

CAMPBELL SOUP COMPANY (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments

The company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates, foreign currency exchange rates, commodities and equity-linked employee benefit obligations. All derivatives are recognized on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as part of a hedge transaction and, if so, the type of hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings in the current period. See

Note 18 of the Notes to Consolidated Financial Statements for additional information.

16 (In Part): Notes Payable and Long-Term Debt

Notes payable consists of the following:

	2004	2003
Commercial paper	$790	$ 668
Current portion of long-term debt	—	600
Variable-rate bank borrowings	14	11
Fixed-rate borrowings	6	—
	$810	$1,279

Commercial paper had a weighted average interest rate of 3.23% and 2.33% at August 1, 2004 and August 3, 2003, respectively.

The current portion of Long-term Debt had a weighted average interest rate of 3.15% at August 3, 2003.

The company has two committed lines of credit totaling $1,800 that support commercial paper borrowings and remain unused at August 1, 2004, except for $34 of standby letters of credit issued on behalf of the company.

Long-term Debt consists of the following:

Type	Fiscal Year of Maturity	Rate	2004	2003
Notes	2007	6.90%	$ 300	$ 300
Notes	2007	5.50%	300	300
Notes	2009	5.88%	300	300
Notes	2011	6.75%	700	700
Notes	2013	5.00%	400	400
Notes	2014	4.88%	300	—
Debentures	2021	8.88%	200	200
Other			43	49
			$2,543	$2,249

The fair value of the company's long-term debt including the current portion of long-term debt in Notes payable was $2,736 at August 1, 2004, and $3,080 at August 3, 2003.

17 (In Part): Other Liabilities

	2004	2003
Deferred taxes	$332	$245
Deferred compensation	108	102
Postemployment benefits	15	19
Fair value of derivatives	151	97
Other	15	19
	$621	$482

18. Financial Instruments

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term debt approximate fair value. The fair values of long-term debt, as indicated in Note 16, and derivative financial instruments are based on quoted market prices.

In 2001, the company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 and SFAS No. 149. The standard requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of the hedging relationships.

The company utilizes certain derivative financial instruments to enhance its ability to manage risk, including interest rate, foreign currency, commodity and certain equity-linked employee compensation exposures that exist as part of ongoing business operations. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The company does not enter into contracts for speculative purposes, nor is it a party to any leveraged derivative instrument.

The company is exposed to credit loss in the event of nonperformance by the counterparties on derivative contracts. The company minimizes its credit risk on these transactions by dealing only with leading, credit-worthy financial institutions having long-term credit ratings of "A" or better and, therefore, does not anticipate nonperformance. In addition, the contracts are distributed among several financial institutions, thus minimizing credit risk concentration.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the company designates the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), (3) a foreign-currency fair-value or cash-flow hedge (foreign-currency hedge), or (4) a hedge of a net investment in a foreign operation. Some derivatives may also be considered natural hedging instruments (changes in fair value are recognised to act as economic offsets to changes in fair value of the underlying hedged item and do not qualify for hedge accounting under SFAS No. 133).

Changes in the fair value of a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current period earning. Changes in the fair value of a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Changes in the fair value of a foreign-currency hedge are recorded in either current period earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge (e.g., a hedge of a firm commitment that is to be settled in foreign currency) or a cash-flow hedge (e.g., a hedge of a foreign-currency-denominated forecasted transaction). If, however, a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within Shareowners' equity (deficit).

The company finances a portion of its operations through debt instruments primarily consisting of commercial paper, notes, debentures and bank loans. The company utilizes interest rate swap agreements to minimize worldwide financing costs and to achieve a targeted ratio of variable-rate versus fixed-rate debt.

In September 2003, the company entered into ten-year interest rate swaps that converted $200 of the 4.875% fixed-rate notes issued during that month to variable. The company also entered into $100 five-year interest rate swaps that converted a portion of the 5.875% fixed-rate notes due October 2008 to variable.

In April 2004, the company entered into a $50 interest rate swap that converted a portion of the 6.9% fixed-rate notes due October 2006 to variable.

In May 2004, the company entered into a $50 interest rate swap that converted a portion of the 6.9% fixed-rate notes due October 2006 to variable.

In November 2002, the company terminated interest rate swap contracts with a notional value of $250 that converted fixed-rate debt (6.75% notes due 2011) to variable and received $37. Of this amount, $3 represented accrued interest earned on the swap prior to the termination date. The remainder of $34 is being amortized over the remaining life of the notes as a reduction to interest expense. The company also entered into ten-year interest rate swaps that converted $300 of ten-year 5% fixed-rate notes issued in November 2002 to variable.

In 2002, the company entered into interest rate swaps that converted fixed-rate debt (5.50% notes due in 2007 and 5.875% notes due in 2009) to variable. Fixed-to-variable interest rate swaps are accounted for as fair-value hedges. Gains and losses on these instruments are recorded in earnings as adjustments to interest expense, offsetting gains and losses on the hedged item. The notional amount of fair-value interest rate swaps was $875 and $475 at August 1, 2004 and August 3, 2003, respectively. The swaps had a minimal fail value at August 1, 2004 and a fair value of $2 at August 3, 2003.

In 2002, the company also entered into interest rate swaps with a notional value of $300 that converted variable-rate debt to fixed. The swaps matured in 2004.

In anticipation of the $300 seven-year notes issued in September 2001, the company entered into forward-starting interest rate swap contracts with a notional value of $138. Upon issuance of the notes, the contracts were settled at a loss of approximately $4. This loss was recorded in other comprehensive income (loss) and is being amortized to interest expense over the life of the notes.

The company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries, including subsidiary financing transactions. The company utilizes foreign currency forward purchase and sale contracts, options and cross-currency swaps in order to manage the volatility associated with foreign currency purchases and certain intercompany transactions in the normal course of business.

Qualifying foreign exchange forward and cross-currency swap contracts are accounted for as cash-flow hedges when the hedged item is a forecasted transaction, or when future cash flows related to a recognized asset or liability are expected to be received or paid. The effective portion of the changes in fair value on these instruments is recorded in Accumulated other comprehensive income (loss) and is reclassified into the Statements of Earnings on the same line item and in the same period or periods in which the hedged transaction affects earnings. The assessment of effectiveness for contracts is based on changes in spot rates. The fair value of these instruments was $(147) at August 1, 2004.

Qualifying foreign exchange forward contracts are accounted for as fair-value hedges when the hedged item is a recognized asset, liability or firm commitment. The fair-value of such contracts was not material at August 1, 2004.

The company also enters into certain foreign exchange forward contracts and variable-to-variable cross-currency swap contracts that are not designated as accounting hedges. These instruments are primarily intended to reduce volatility of certain intercompany financing transactions. Gains and losses on derivatives not designated as accounting hedges are typically recorded in Other expenses/(income), as an offset to gains (losses) on the underlying transactions. The fair value of these instruments was $(8) at August 1, 2004.

Foreign exchange forward contracts typically have maturities of less than eighteen months. Principal currencies include the Australian dollar, British pound, Canadian dollar, euro, Japanese yen and Swedish krona.

As of August 1, 2004, the accumulated derivative net loss in other comprehensive income for cash-flow hedges, including the foreign exchange forward and cross-currency contracts, forward-starting swap contracts and treasury lock agreements was $1, net of tax. As of August 3, 2003 the accumulated derivative net loss in other comprehensive income for cash-flow hedges, including the cross-currency swaps, variable-to-fixed interest rate swaps and forward-starting swap contracts was $5, net of tax. Reclassifications from Accumulated other comprehensive income (loss) into the Statements of Earnings during the period ended August 1, 2004 were not material. There were no discontinued cash-flow hedges during the year. At August 1, 2004, the maximum maturity date of any cash-flow hedge was approximately nine years.

Other disclosures related to hedge ineffectiveness, gains (losses) excluced from the assessment of hedge effectiveness, gains (losses) arising from effective hedges of net investments, gains (losses) resulting from the discontinuance of hedge accounting and reclassifications from other comprehensive income to earnings have been omitted due to the insignificance of these amounts.

The company principally uses a combination of purchase orders and various short- and long-term supply arrangements in connection with the purchase of raw materials, including certain commodities and agricultural products. The company may also enter into commodity futures contracts, as considered appropriate, to reduce the volatility of price fluctuations for commodities such as com, cocoa, soybean meal, soybean oil, and wheat. As of August 1, 2004 the fair value of open contracts related to commodity hedging activity was $(4).

The company is exposed to equity price changes related to certain employee compensation obligations. Swap contracts are utilized to hedge exposures relating to certain employee compensation obligations linked to the total return ot the Standard & Poor's 500 Index and the total return of the company's capital stock. The company pays a variable interest rate and receives the equity returns under these instruments. The notional value of the equity swap contracts, which mature in 2005, was $34 at August 1, 2004. These instruments are not designated as accounting hedges. Gains and losses are recorded in the Statements of Earnings. The net asset recorded under these contracts at August 1, 2004 was approximately $1.

20 (In Part): Commitments and Contingencies

In November 2002. FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. FIN 45 clarifies the requirements relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

The company guarantees almost 1,300 bank loans made to Pepperidge Farm independent sales distributors by third party financial institutions for the purchase of distribution routes. The maximum potential amount of future payments the company could be required to make under the guarantees is approximately $95. The company's guarantees are indirectly secured by the distribution routes. The company does not believe it is probable that it will be required to make guarantee payments as a result of defaults on the bank loans guaranteed. Prior to the adoption of FIN 45, no amounts were recognized on the Consolidated Balance Sheets related to these guarantees. The amounts recognized as of August 1, 2004 and August 3, 2003 are not material.

The company has provided certain standard indemnifications in connection with divestitures, contracts and other transactions. Certain indemnifications have finite expiration dates. Liabilities recognized based on known exposures related to such matters are not material at August 1, 2004.

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CATERPILLAR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

E. Securitized Receivables

When retail finance receivables are securitized, we retain interest in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. Gains or losses on the securitization are dependent on the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based on their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds, forward yield curves and discount rates.

When trade receivables are securitized, we retain interests in the receivables in the form of certificates. The fair value of these certificated retained interests approximates carrying value due to their short-term nature.

H. Derivative Financial Instruments

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate and commodity price exposure. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps and commodity forward and option contracts. Our derivative activities are subject to the management, direction and control of our financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the board of directors at least annually.

All derivatives are recognized on the Consolidated Financial Position at their fair value. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized liability ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid ("cash flow" hedge), or (3) an "undesignated" instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific liabilities on the Consolidated Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).

I. Impairment of Available-for-Sale Securities

Available-for-sale securities are reviewed monthly to identify market values below cost of 20% of more. If a decline for a debt security is in excess of 20% for six months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). After the six-month period, debt securities with declines from cost in excess of 20% are evaluated monthly for impairment. For equity securities, if a decline from cost of 20% or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

8 (In Part): Finance Receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 3 are net of an allowance for credit losses.

During 2004, 2003 and 2002, Cat Financial securitized retail installment sale contracts and finance leases into public asset-backed securitization facilities. The securitization facilities are qualifying special purpose entities and thus, in accordance with SFAS 140, are not consolidated. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2004, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $2 million and a reserve account with an initial fair value of $10 million. For 2003, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $14 million and a reserve account with an initial fair value of $10 million. For 2002, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $11 million and a reserve account with an initial fair value of $10 million. The company's retained interests generally are subordinate to the investors' interests. Net gains of $13 million, $22 million and $18 million were recognized on these transactions in 2004, 2003 and 2002, respectively.

Significant assumptions used to estimate the fair value of the retained interests and subordinated certificates at the time of the transaction were:

	2004	2003	2002
Discount rate	10.7%	11.0%	10.9%
Weighted-average prepayment rate	14.0%	14.0%	14.0%
Expected credit losses	1.0%	1.0%	1.0%

The company receives annual servicing fees of approximately 1% of the unpaid note value.

As of December 31, 2004, 2003 and 2002, the subordinated retained interests in the public securitizations totaled $73 million, $73 million and $47 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2004	2003	2002
Cash flow discount rates on retained interests and subordinated tranches	10.7%	9.1–10.8%	9.0–10.7%
Weighted-average maturity	28 months	27 months	29 months
Average prepayment rate	14.0%	14.0%	14.0%
Expected credit losses	1.0%	1.0%	1.0%

The investors and the securitization trusts have no recourse to Cat Financial's other assets for failure of debtors to pay when due.

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

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Please refer to Note 20 and Table III for fair value information.

13. Available-for-Sale Securities

Cat Insurance and Caterpillar Investment Management Ltd, had investments in certain debt and equity securities at December 31, 2004, 2003 and 2002, that have been classified as available-for-sale in accordance with SFAS 115 and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets." Gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income"). Realized gains and losses on sales of investments are generally determined using the specific identification method for debt instruments and the FIFO method for equity securities. Realized gains and losses are included in "Other income (expense)."

(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
December 31, 2004			
Government debt	$239	$ (1)	$238
Corporate bonds	342	—	342
Equity securities	203	21	224
	$784	$ 20	$804
December 31, 2003			
Government debt	$102	$ —	$102
Corporate bonds	288	3	291
Equity securities	191	21	212
	$581	$ 24	$605
December 31, 2002			
Government debt	$ 89	$ —	$ 89
Corporate bonds	208	1	209
Equity securities	220	(51)	169
	$517	$(50)	$467

Investments in an Unrealized Loss Position That Are Not Other-Than-Temporarily Impaired

December 31, 2004						
	Less Than 12 Months(1)		More Than 12 Months(1)		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	166	1	9	—	175	1
Corporate bonds	156	2	.35	—	191	3
Equity securities	46	1	2	—	48	1
Total	$368	$4	$46	$1	$414	$5

(1) Indicates length of time that individual securities have been in continuous unrealized loss position.

The fair value of available-for-sale debt securities at December 31, 2004, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$ 30
Due after one year through five years	$273
Due after five years through ten years	$ 50
Due after ten years	$227

Proceeds from sales of investments in debt and equity securides during 2004, 2003 and 2002 were $408 million, $329 million and $288 million, respectively. Gross gains of $8 million, $3 million and $9 million and gross losses of $6 million, $2 million and $2 million have been included in current earnings as a result of these sales for 2004, 2003 and 2002, respectively.

During 2003 and 2002, we recognized pretax charges in accordance with the application of SFAS 115 for "other than temporary" declines in the market value of securities in the Cat Insurance and Caterpillar Investment Management Ltd, investment portfolios of $33 million and $41 million, respectively. During 2004, there were no pretax charges for "other than temporary" declines in the market value of securities.

20. Fair Values of Financial Instruments

We used the following methods and assumptions to estimate the fair value of our financial instruments:

Cash and short-term investments—carrying amount approximated fair value.

Long-term investments (other than investments in unconsolidated affiliated companies)—fair value for available for sale securities was estimated based on quoted market prices. Fair value for security deposits approximated carrying value.

Foreign currency forward and option contract—fair value of forward contracts was determined by discounting the future cash flow resulting from the differential between the contract price and the forward rate. Fair value of option contracts was determined by using the Black-Scholes model.

Finance receivables—fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities. Historical bad-debt experience also was considered

Wholesale inventory receivables—fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities.

Short-term borrowings—carrying amount approximated fair value.

Long-term debt—for Machinery and Engines notes and debentures, fair value was estimated based on quoted market prices. For Financial Products, fair value was estimated by discounting the future cash flow using our current borrowing rates for similar types and maturities of debt, except for floating rate notes and commercial paper supported by long-term credit agreements for which the carrying amounts were considered a reasonable estimate of fair value. For deposit obligations carrying value approximated fair value.

Interest rate swaps—fair value was estimated based on the amount that we would receive or pay to terminate our agreements as of year-end.

Guarantees—fair value is estimated based on the premium we would require to issue the same guarantee in a stand alone arm's-length transaction with an unrelated party.

Please refer to Table III for the fair values of our financial instruments.

TABLE III—FAIR VALUES OF FINANCIAL INSTRUMENTS

	2004		2003		2002	
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Asset (Liability) at December 31						
Cash and short-term investments	$ 445	$ 445	$ 342	$ 342	$ 309	$ 309
Long-term investments	1,852	1,852	1,574	1,574	1,089	1,089
Foreign currency contracts	176	176	167	167	47	47
Finance receivables—net (excluding finance type leases[1])	13,457	13,445	11,439	11,489	10,098	10,168
Wholesale inventory receivables—net (excluding finance type leases[1])	882	857	681	666	637	641
Short-term borrowings	(4,157)	(4,157)	(2,757)	(2,757)	(2,175)	(2,175)
Long-term debt (including amounts due within one year)						
Machinery and Engines	(3,669)	(4,186)	(3,635)	(4,109)	(3,839)	(4,363)
Financial Products	(15,599)	(15,843)	(13,892)	(14,078)	(11,847)	(12,118)
Interest rate swaps						
Financial Products—						
in a net receivable position	75	75	87	87	84	84
in a net payable position	(69)	(69)	(59)	(59)	(85)	(85)
Guarantees[2]	(10)	(10)	(5)	(9)	—	(6)

[1] Total excluded items have a net carrying value at December 31, 2004, 2003 and 2002 of $1.737 million, $1.546 million and $1.369 million, respectively.

[2] The carrying amount provisions of FASB Interpretation No. 45 related to guarantees are effective for guarantees issued or modified subsequent to December 31, 2002 only, whereas the fair value amount is for all guarantees.

23 (In Part): Guarantees and Product Warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from third party lenders in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third party dealers who sell Caterpillar equipment. These guarantees have terms ranging from one to four years and are secured primarily by dealer assets.

In 2004, Cat Financial provided a limited indemnity to a third party bank for $45 million resulting from the assignment of certain leases to that bank. The indemnity is for the remote chance that the insurers of these leases would become insolvent. The indemnity/guarantee is for eight years and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2004, 2003 and 2002, the related book value was $10 million, $5 million and $0, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees at December 31 are as follows:

(Millions of dollars)	2004	2003	2002
Guarantees with Caterpillar dealers	$364	$380	$290
Guarantees—other	62	37	34
Total guarantees	$426	$417	$324

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents represent investments with maturities of three months or less from time of purchase. They are carried at cost plus accrued interest, which approximates fair value because of the short-term maturity of these instruments.

Investments in Securities

Marketable debt securities represent investments in fixed and floating rate financial instruments with maturities of twelve months or less from time of purchase. They are classified as held-to-maturity and recorded at amortized cost.

Other assets include long-term investments in securities, which comprise marketable equity securities and other securities and investments for which market values are not readily available. Marketable equity securities are classified as available-for-sale and reported at fair value. Fair value is based on quoted market prices as of the end of the reporting period. Unrealized gains and losses are reported, net of their related tax effects, as a component of Accumulated other comprehensive income (loss) in stockholders' equity until sold. At the time of sale, any gains or losses calculated by the specific identification method are recognized in Other income. Losses are also recognized in income when a decline in market value is deemed to be other than temporary. Other securities and investments for which market values are not readily available are carried at cost.

Hedging and Trading Activities (In Part)

Derivative instruments are reported on the Consolidated Balance Sheets at their fair values. For derivative instruments designated as fair value hedges, changes in the fair values of the derivative instruments will generally be offset on the income statement by changes in the fair value of the hedged items. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in Accumulated other comprehensive income (loss) until it is cleared to earnings during the same period in which the hedged item affects earnings. The ineffective portion of all hedges is recognized in current period earnings. Changes in the fair values of derivative instruments that are not designated as hedges are recorded in current period earnings.

12. Accounts and Notes Receivable

	2004	2003
Trade—net of allowances of $199 in 2004 and $187 in 2003	$3,860	$3,427
Miscellaneous	1,029	791
	$4,889	$4,218

Accounts and notes receivable are carried at amounts that approximate fair value and include amounts due from equity affiliates of $88 for 2004, and $148 for 2003.

18. Other Assets

	2004	2003
Prepaid pension cost	$2,487	$ 635
Intangible pension asset (Note 29)	35	292
Long-term investments in securities	106	141
Deferred income taxes	1,233	1,054
Miscellaneous	372	334
	$4,233	$2,456

Included within long-term investments in securities are securities for which market values are not readily available. Also included in long-term investments in securities are securities classified as available for sale as follows:

	2004	2003
Cost	$19	$ 48
Gross unrealized gains	4	6
Gross unrealized losses	(1)	(10)
Fair value	$22	$ 44

In 2004, the company received proceeds of $12 from the sale of equity securities. This sale resulted in a pretax gain of $10; the cost of the securities sold was determined based on the original purchase price. The company's sales of equity securities in 2003 and 2002 were not material.

The table below discloses the fair value and unrealized losses on investments included in Other assets. The book value of investments held less than 12 months with a temporary impairment is included in Miscellaneous. The book value of investments held 12 months or greater with a temporary impairment is included in Long-term investments in securities.

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 5	$ 1	$—	$—	$ 5	$1
Investments in equity securities carried at cost	$—	$—	$ 7	$ 3	$ 7	$3
Total	$ 5	$ 1	$ 7	$ 3	$12	$4

Marketable Equity Securities

The company's investment in marketable equity securities consists primarily of investments in common stocks of companies in the electronic and communications industry.

The investment in common stock of one company is in an unrealized loss position. The severity and duration of the impairment were reviewed by the company in relation to industry averages. The company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the company does not consider this investment to be other than temporarily impaired at December 31, 2004.

Investments in Equity Securities Carried at Cost

The aggregate of the company's cost investments totaled $84 at December 31, 2004. One investment in a privately owned company is in an unrealized loss position. The severity and duration of the impairment were reviewed by the company in relation to industry averages. The company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the company does not consider this investment to be other than temporarily impaired at December 31, 2004.

19. Accounts Payable

	2004	2003
Trade payables	$2,007	$1,691
Payables to banks	132	181
Compensation awards	152	134
Miscellaneous	462	406
	$2,753	$2,412

Trade payables includes $78 for 2004 and $70 for 2003 due to equity affiliates. Payables to banks represent checks issued on certain disbursement accounts but not presented to the banks for payment. The reported amounts shown above approximate fair value because of the short-term maturity of these obligations.

20 (In Part): Short-Term Borrowings and Capital Lease Obligations

	2004	2003
Commercial paper	$584	$4,422
Other loans—various currencies	156	201
Long-term debt payable within one year	167	1,262
Industrial development bonds payable on demand	26	26
Capital lease obligations	3	3
	$936	$5,914

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 $900 and $6,000 at December 31, 2004 and 2003, respectively. The change in estimated fair value in 2004 was due to a decrease in short-term debt, primarily commercial paper and notes due within one year.

22 (In Part): Long-Term Borrowings and Capital Lease Obligations

	2004	2003
U.S. dollar:		
Industrial development bonds due 2007–2029[1]	$ 308	$ 309
Medium-term notes due 2005–2048[2]	615	611
6.75% notes due 2004[4]	—	946[3]
8.13% notes due 2004[4]	—	316[3]
8.25% notes due 2006[4]	205	213
6.75% notes due 2007[4]	486	487
3.375% notes due 2007[4]	399	401
5.75% notes due 2009	200	200
5.88% notes due 2009[4]	432	442
6.88% notes due 2009[4]	885	883
4.125% notes due 2010[4]	908	—
4.75% notes due 2012	400	400
4.875% notes due 2014[4]	507	—
6.50% debentures due 2028	298	298
Other loans (various currencies) due 2005–2009[5]	39	17
Capital lease obligations	33	40
	$5,715	$5,563
Less short-term portion of long-term debt	167	1,262
Total	$5,548	$4,301

(1) Average interest rates on industrial development bonds were 5.8 percent for December 31, 2004 and 2003.

(2) Average interest rates on medium-term notes at December 31, 2004 and 2003, were 4.0 percent and 3.6 percent, respectively.

(3) Includes long-term debt due within one year.

(4) The company has outstanding interest rate swap agreements with notional amounts totaling $2,897. Over the remaining terms of the notes and debentures, the company will receive fixed payments equivalent to the underlying debt and pay floating payments based on U.S. dollar LIBOR. The fair value of the swaps at December 31, 2004 and 2003, was $65 and $76, respectively.

(5) Average interest rates on other loans (various currencies) were 5.1 percent at December 31, 2004 and 4.7 percent at December 31, 2003.

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The estimated fair value of the company's long-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 $5,900 and $4,700 at December 31, 2004 and 2003, respectively. The change in estimated fair value in 2004 was primarily due to an increase in long-term debt.

25 (In Part): Commitments and Contingent Liabilities

Guarantees (In Part)

Indemnifications

In connection with acquisitions and divestitures, the company has indemnified respective parties against certain liabilities that may arise in connection with these transactions and business activities prior to the completion of the transaction. The term of these indemnifications, which typically pertain to environmental, tax and product liabilities, is generally indefinite. In addition, the company indemnifies its duly elected or appointed directors and officers to the fullest extent permitted by Delaware law, against liabilities incurred as a result of their activities for the company, such as adverse judgments relating to litigation matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the company would be required to reimburse the indemnified party. The maximum amount of potential future payments is generally unlimited.

The carrying amounts recorded for all indemnifications as of December 31, 2004 and 2003 is $99 and $31, respectively. Although it is reasonably possible that future payments may exceed amounts accrued, due to the nature of indemnified items, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss. No assets are held as collateral and no specific recourse provisions exist.

In connection with the sale of INVISTA, the company indemnified Koch against certain liabilities primarily related to taxes, legal and environmental matters, and other representations and warranties. The estimated fair value of these obligations of $74 is included in the indemnifications balance of $99 at December 31, 2004. The fair value was based on management's best estimate of the value expected to be required to issue the indemnifications in a standalone, arm's length transaction with an unrelated party and, where appropriate, by the utilization of probability-weighted discounted net cash flow models.

Obligations For Equity Affiliates & Others

The company has directly guaranteed various debt obligations under agreements with third parties related to equity affiliates, customers, suppliers and other unaffiliated companies. At December 31, 2004, the company had directly guaranteed $655 of such obligations, plus $333 relating to guarantees of historical obligations for divested subsidiaries. This represents the maximum potential amount of future (undiscounted) payments that the company could be required to make under the guarantees. The company would be required to perform on these guarantees in the event of default by the guaranteed party. No material loss is anticipated by reason of such agreements and guarantees.

The fair value of the guarantees that have been issued or modified since the company's adoption of FASB Interpretation No. 45 on January 1, 2003, is not material. As of December 31, 2004, the liabilities recorded for these obligations were not material. In certain cases, the company has recourse to assets held as collateral as well as personal guarantees from customers and suppliers. Assuming liquidation, these assets are estimated to cover approximately 38 percent of the $130 of guaranteed obligations of customers and suppliers. Set forth below are the company's guaranteed obligations at December 31, 2004:

Guarantees	Short-Term	Long-Term	Total
Obligations for customers, suppliers and other unaffiliated companies(1):			
Bank borrowings (terms up to 7 years)	$ 83	$ 42	$125
Revenue bonds (term 4 years)	—	4	4
Leases on equipment and facilities	1	—	1
Obligations for equity affiliates(2):			
Bank borrowings (terms up to 8 years)	311	168	479
Leases on equipment and facilities (term 5 years)	—	46	46
Total obligations for customers, suppliers, other unaffiliated companies and equity affiliates	395	260	655
Obligations for divested subsidiaries(3):			
Conoco (terms from 4–22 years)	—	217	217
Consolidation Coal Sales Company (term 6 years)	—	103	103
Invista (term 2 years)	—	13	13
Total obligations for divested subsidiaries	—	333	333
	$395	$593	$988

(1) Existing guarantees for customers and suppliers arose as part of contractual agreements.
(2) Existing guarantees for equity affiliates arose for liquidity needs in normal operations.
(3) The company has guaranteed certain obligations and liabilities related to divested subsidiaries, including Conoco and its subsidiaries and affiliates, Consolidation Coal Sales Company, and INVISTA entities sold to Koch. The Restructuring, Transfer and Separation Agreement between DuPont and Conoco requires Conoco to use its best efforts to have Conoco, or any of its subsidiaries, substitute for DuPont Conoco, Koch and Consolidation Coal Sales Company have indemnified the company for any liabilities the company may incur pursuant to these guarantees.

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HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and benefits, and other current liabilities approximate their fair values because of the short-term nature of these instruments. The fair value of our debt is estimated based on quoted market prices for the same or similar issues or on current rates offered to us for debt of the same remaining maturities. The fair value of debt was computed by discounting the remaining cash flows by a rate equal to the estimated constant Treasury rate for the remaining life of the debt instrument plus an applicable credit spread over the remaining average life of the issue. The fair values of debt, including fixed and variable rate instruments, approximated $570.9 million and $456.4 million and the related carrying values were $545.7 million and $413.3 million at January 31, 2005 and January 30, 2004, respectively.

Note 7 (In Part): Total Debt

Total debt at January 31, 2005 and January 30, 2004 consisted of the following:

($ in millions)	2005	2004
8.27% senior notes, due 2005	$ 5.6	$ 11.2
8.42% senior notes, due 2007	61.8	82.4
7.96% senior notes, due 2011	60.7	70.0
7.14% senior notes, due 2012	28.6	32.4
7.19% senior notes, due 2012	40.0	40.0
6.74% senior notes, due 2013	40.5	45.2
5.50% senior notes, due 2014	300.0	—
Fair value hedge carrying value adjustment	1.4	—
Unsecured bank notes under $500.0 revolving credit agreement, payable June 14, 2009	—	100.0
Other notes payable with varying interest rates of 2.1% to 7.6% at January 31, 2005 with due dates from 2005 to 2010	8.7	32.1
Total debt	547.3	413.3
Less discount on debt issuance	(1.6)	—
Total debt less discount	545.7	413.3
Less current portion	(45.2)	(44.6)
Total long-term debt	$500.5	$368.7

Senior Notes Issuance (In Part)

On October 12, 2004, we issued $300.0 million in original principal amount of 5.50% senior notes (the "notes") due on October 15, 2014 in a private placement pursuant to Rule 144A under the Securities Act. The notes were issued at 99.468% of their par value and are reflected in our consolidated balance sheet net of a $1.6 million discount. Total net proceeds from the sale of the notes were $295.7 million, including the $1.6 million discount and approximately $2.7 million of debt issuance costs, with $203.5 million of the proceeds used for the repayment of amounts outstanding under our $500.0 million revolving credit agreement and the remainder to be used for the acquisition of businesses, payment of scheduled principal amortization and interest on our senior notes due 2005 through 2013, capital expenditures, working capital needs, and other general corporate purposes. The discount and debt issuance costs are being amortized to interest expense over the ten-year term of the notes under the straight-line method, which was deemed to be materially consistent with the effective interest method. Interest on the notes is payable on April 15 and October 15 of each year, beginning on April 15, 2005. During fiscal year 2005, we recognized approximately $5.0 million of interest expense associated with the notes. See Note 8 for details on the interest rate swaps that were entered into in conjunction with the issuance of the senior notes and the corresponding fair value hedge carrying value adjustment.

Note 8. Derivative Instruments and Hedging Activities

On September 27, 2004, we entered into a 10-year treasury rate lock contract ("treasury lock") with a financial institution at the then current market rate of 4.019% to hedge the risk that the Treasury rate (benchmark interest rate) component of the fixed coupon payments relating to a $278.0 million notional principal amount of a then-forecasted issuance of $300.0 million of notes (see Note 7) may be adversely affected by interest rate fluctuations. The treasury lock was designated as a cash flow hedge of the fluctuations in the Treasury rate component of the then forecasted fixed coupon payments due to changes in the benchmark interest rate, with the changes in the value of the treasury lock expected to completely offset the changes in the value of the Treasury rate component of the fixed coupon payments. The treasury lock was settled on October 5, 2004, the date the $300.0 million of notes were priced, with the entire gain received upon settlement of $3.4 million being recognized in other comprehensive income, a component of shareholders' equity, subject to $1.4 million of tax. The gain on the treasury lock is being amortized into earnings as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuance are being recognized in earnings. Approximately $0.3 million of the gain will be recognized in earnings as an adjustment to interest expense during the next twelve months.

On November 10, 2004 and November 30, 2004, we entered into separate interest rate swap contracts with two distinct financial institutions that each effectively converted $50.0 million (i.e., an aggregate of $100.0 million) of our $300.0 million in original principal amount of 5.50% notes, due October 15, 2014, to floating rate debt based on the six-month LIBOR rate plus 0.6985% and 0.79%, respectively, with semi-annual settlements through October 15, 2014. The interest rate swap contracts have been designated as fair value hedges of the changes in fair value of the respective $50.0 million of 5.50% notes due to changes in the benchmark interest rate (i.e., six-month LIBOR rate). The interest rate swap contracts have qualified for the shortcut method of accounting prescribed by SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. As a result, changes in the fair value of the derivatives will completely offset the changes in the fair value of the underlying hedged items. At January 31, 2005, the change in the fair value of the derivative instruments and the underlying long-term debt was approximately $1.4 million, with the change in the fair value of the derivative instrument included within other assets in our consolidated balance sheets. We entered into the interest rate swap contracts to help manage the ratio of our fixed to floating rate debt in accordance with our formally documented interest rate risk management policy.

CONCENTRATIONS OF CREDIT RISK

1.158

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Concentrations of Credit Risk

The Company operates in a single business segment and is primarily a producer of carbon, stainless and electrical steels and steel products, which are sold to a number of markets, includingautomotive, industrial machinery and equipment, construction, power distribution and appliances. The following presents net sales by product line:

	2004	2003	2002
Stainless and electrical	$1,793.5	$1,331.1	$1,444.8
Carbon	3,163.4	2,571.0	2,635.3
Tubular	249.5	134.6	78.7
Other, primarily conversion services	10.9	5.0	—
Total	$5,217.3	$4,041.7	$4,158.8

The following sets forth the percentage of the Company's net sales attributable to various markets:

	2004	2003	2002
Automotive	48%	58%	59%
Appliance, industrial machinery and equipment, and construction	20%	18%	22%
Distributors, service centers and converters	32%	24%	19%

Net sales to General Motors Corporation, the Company's largest customer, accounted for approximately 15%, 20% and 20% of the total net sales in 2004, 2003 and 2002, respectively. Sales to Ford Motor Company accounted for approximately 8%, 10% and 9% of the Company's net sales during the same respective three-year period. No other customer accounted for more than 10% of net sales for any of these years. The Company sells domestically to customers primarily in the Midwestern and Eastern United States and to foreign customers, primarily in Canada, Mexico and Western Europe. Net sales to customers located outside the United States totaled $533.7, $489.4 and $439.4 for 2004, 2003 and 2002, respectively. Approximately 28% and 33% of trade receivables outstanding at December 31, 2004 and December 31, 2003, respectively are due from businesses associated with the U.S. automotive industry. Except in a few situations where the risk warrants it, collateral is not required on trade receivables. While the Company believes its recorded trade receivables will be collected, in the event of default the Company would follow normal collection procedures.

1.159

DEERE & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Trade Accounts and Notes Receivable

Trade accounts and notes receivable at October 31 consisted of the following in millions of dollars:

	2004	2003
Trade accounts and notes:		
Agricultural	$1,838	$1,711*
Commercial and consumer	793	683
Construction and forestry	576	225
Trade accounts and notes receivable—net	$3,207	$2,619

* Restated to include special technologies group.

At October 31, 2004 and 2003, dealer notes included in the previous table were $411 million and $428 million, and the allowance for doubtful trade receivables was $56 million and $58 million, respectively.

The Equipment Operations sell a significant portion of newly originated trade receivables to the credit operations and provide compensation to the credit operations at market rates of interest for these receivables.

Trade accounts and notes receivable primarily arise from sales of goods to dealers. Under the terms of the sales to dealers, interest is charged to dealers on outstanding balances from the earlier of the date when goods are sold to retail customers by the dealer or the expiration of certain interest-free periods granted at the time of the sale to the dealer, until payment is received by the company. Dealers cannot cancel purchases after the equipment is shipped and are responsible for payment even if the equipment is not sold to retail customers. The interest-free periods are determined based on the type of equipment sold and the time of year of the sale. These periods range from one to 12 months for most equipment. Interest-free periods may not be extended. Interest charged may not be forgiven and interest rates, which exceed the prime rate, are set based on market factors. The company evaluates and assesses dealers on an ongoing basis as to their credit worthiness and generally retains a security interest in the goods associated with these trade receivables. The company is obligated to repurchase goods sold to a dealer upon cancellation or termination of the dealer's contract for such causes as change in ownership, closeout of the business or default. The company may also in certain circumstances repurchase goods sold to a dealer in order to satisfy a request for goods from another dealer.

Trade accounts and notes receivable have significant concentrations of credit risk in the agricultural, commercial and consumer, and construction and forestry sectors as shown in the previous table. On a geographic basis, there is not a disproportionate concentration of credit risk in any area.

1.160

IKON OFFICE SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

4. Accounts Receivable

Trade accounts receivables are recorded when revenue is recognized in accordance with our revenue recognition policy discussed in note 1. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable balance based on our historical experience, in addition to any credit matters we are aware of with specific customers. The allowance is reviewed monthly to ensure that there is a sufficient reserve to cover any potential write-offs. Account balances are charged off against the allowance when we feel it is probable the receivable will not be collected. Accounts receivable, net of allowances, consisted of the following at September 30:

	2004	2003
Trade receivables from GE, including amounts unbilled	$215,740	$ —
Trade receivables from other customers	$467,096	450,176
Total trade receivables	682,836	450,176
Other	89,799	110,074
	$772,635	$560,250

The following are the changes in the allowance for doubtful accounts during the fiscal years ended September 30, 2004, 2003, and 2002:

September 30	Balance at Beginning of Year	Charged to Expense	Write-Offs, Net of Recoveries	Balance at End of Year
2004	$14,258	$21,366	$15,512	$20,112
2003	14,251	13,175	13,168	14,258
2002	23,510	4,753	14,012	14,251

19 (In Part): Financial Instruments

Concentration of Credit Risk

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, 2004, we had accounts receivable from GE of $215,740 (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.

Short-term cash investments are placed with high credit quality financial institutions and in short duration corporate and government debt securities funds. We generally limit the amount of credit exposure in any one type of investment instrument.

SUBSEQUENT EVENTS

1.161 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.

1.162 Examples of subsequent event disclosures follow.

1.163

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	2004	2003	2002	2001
Business combinations pending or effected	75	83	67	72
Debt incurred, reduced or refinanced	68	64	76	83
Discontinued operations or asset disposals	50	59	68	50
Litigation	36	29	38	30
Capital stock issued or purchased	24	27	18	20
Stock splits or dividends	14	11	3	7
Employee benefits	10	11	8	12
Reorganization/bankruptcy	1	8	6	11
Other—described	46	63	71	81

Business Combinations

1.164

BROWN SHOE COMPANY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Event—Acquisition of Bennett Footwear Group

On March 14, 2005, the Company announced that it had entered into a Securities Purchase Agreement to acquire Bennett Footwear Group, LLC ("Bennett") for $205 million in cash, plus contingent payments of up to $42.5 million based upon the achievement of certain performance targets over the next three years. The purchase price is subject to post-closing adjustment based on actual net equity. The Bennett acquisition is expected to close during April or May of 2005.

Bennett's owned and licensed footwear brands, which include Via Spiga, Franco Sarto, Etienne Aigner and Nickels Soft, are primarily sold in footwear departments of many major U.S. department and specialty stores. The Bennett acquisition complements the Company's existing portfolio of well-known wholesale brands such as Naturalizer, Life Stride, Bass and Dr. Scholl's, which are sold primarily in the moderately priced range, by adding strong brands in the better and bridge footwear zones. Bennett had revenues of approximately $200 million in 2004.

The Company has received a commitment letter from a lender to provide a senior unsecured loan to fund up to $100 million for the Bennett acquisition, which will bear interest at the greater of 8.25% or a floating rate based on three-month LIBOR, increasing at the end of each three-month period that the loan is outstanding ("the Bridge Loan"). The Bridge Loan will be guaranteed by all existing and future subsidiaries of the Company that are guarantors under its existing revolving Credit Agreement. The Company will fund the remaining portion of the purchase price from existing cash and available borrowings under the existing revolving Credit Agreement. The Company anticipates that it will refinance the acquisition cost by issuing long-term notes totaling approximately $150 million to $175 million during 2005.

1.165

CTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note P. Subsequent Event

On November 16, 2004, CTS entered into a merger agreement with SMTEK International, Inc. (SMTEK). The agreement was approved by SMTEK shareholders on January 31, 2005. Under the terms of the merger agreement, CTS acquired 100% of the outstanding common shares and SMTEK shareholders received $14.26, comprised of $10.73 in cash and $3.53 worth of CTS common stock. In addition, CTS assumed approximately $13 million of SMTEK debt. In connection with the merger, CTS issued 812,365 additional shares of common stock.

SMTEK is an EMS provider serving original equipment manufacturers in the medical, industrial, instrumentation, telecommunications, security, financial services, automation, aerospace and defense industries. SMTEK's four facilities are located in Moorpark and Santa Clara, California; Marlborough, Massachusetts; and Bangkok, Thailand. As a result of the acquisition, CTS expects to expand into new EMS markets, reduce customer concentrations, and increase its global footprint.

The estimated aggregate purchase price is approximately $60 million, consisting of $35 million cash consideration, $13 million of SMTEK debt assumed by CTS, CTS common stock valued at $10 million, and $2 million of estimated transactions costs. CTS is in the process of obtaining third-party valuations of certain intangible assets, thus the allocation of the purchase price to major assets and liability captions is currently being completed.

Debt Incurred, Reduced, or Refinanced

1.166

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Subsequent Events

In December 2004, the Company closed a new $180 million credit facility (New Credit Facility) with a syndicate of lenders. The New Credit Facility provides for an $80 million revolving credit facility maturing in December 2009, and a $100 million credit-linked facility maturing in December 2010. The credit-linked facility consists of a $25 million term loan subfacility and a $75 million letter of credit subfacility. The interest rate on the revolving credit facility is LIBOR plus 275 basis points, subject to adjustment based on the Company's leverage ratio, and the interest rate on the term loan is LIBOR plus 300 basis points.

The New Credit Facility is secured by substantially all of the Company's assets, including the stock and assets of its material domestic subsidiaries who are guarantors of the facility. The Company is subject to certain limitations including the ability to: incur additional debt or sell assets, with restrictions on the use of proceeds; make certain investments and acquisitions; grant liens; and make restricted payments. The Company is also subject to financial covenants effective for the period ending February 28, 2005, which include an interest coverage ratio, a leverage ratio, a senior leverage ratio, and a fixed charge coverage ratio. For fiscal year 2005 the financial covenants are: a minimum interest coverage ratio of 2.00 to 1.00, a maximum leverage ratio of 8.25 to 1.0 through May 31, 2005 and reducing to 7.50 to 1.0, a maximum senior leverage ratio of 3.0 to 1.0 through May 31, 2005 and reducing to 2.5 to 1.0, and a maximum fixed charge coverage ratio of 1.05 to 1.0 through May 31, 2005 and reducing to 1.10 to 1.0. As of November 30, 2004, the Company meets the financial covenants effective February 28, 2005.

The New Credit Facility replaces the previous credit facility (Restated Credit Facility) which was terminated by the Company in December 2004. The outstanding term loans totaling $141 million plus accrued interest under the Restated Credit Facility were repaid in full using restricted cash from the proceeds of the GDX Automotive sale completed in August 2004 and the equity offering completed in November 2004. Cash proceeds from the $25 million term loan, net of underwriting fees and expenses associated with the New Credit Facility were $21 million and will be used for general corporate purposes.

In December 2004, an initial purchaser exercised its option to purchase additional $2\frac{1}{4}$% Debentures totaling approximately $66 million aggregate principal amount. Cash proceeds, net of underwriting discounts and transaction costs, were approximately $64 million and were used to repurchase approximately $60 million of the $5\frac{3}{4}$% Notes, plus premium, accrued interest, and transaction costs.

In February 2005, the Company redeemed $53 million principal amount of its $9\frac{1}{2}$% Notes, representing 35% of the $150 million aggregate principal outstanding (see Note 10). In accordance with the indenture governing the notes, the redemption price was 109.5% of the principal amount of the notes redeemed, plus accrued and unpaid interest. The Company paid the redemption price using a portion of the proceeds from the equity offering completed in November 2004.

In the first quarter of fiscal 2005, the Company will record a charge of approximately $19 million as a result of the termination of the Restated Credit Facility, the redemption of $53 million of principal of the $9\frac{1}{2}$% Notes, and the repayment of $66 million of principal of the $5\frac{3}{4}$% Notes.

1.167

NACCO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22. Subsequent Events

On January 27, 2005, NACoal issued additional unsecured notes (the "additional NACoal Notes") totaling $10.0 million in a private placement. The additional NACoal Notes require annual payments of approximately $1.4 million beginning in October 2008 and will mature on October 4, 2014. The additional NACoal Notes bear interest at a fixed rate of 6.14%, payable semi-annually on April 4 and October 4. The additional NACoal Notes are redeemable at any time at the option of NACoal, in whole or in part, at an amount equal to par plus accrued and unpaid interest plus a "make-whole premium," if applicable. Proceeds from the additional NACoal Notes were used for general corporate purposes. The proceeds of the additional NACoal Notes were reduced by $0.1 million in private placement debt issuance costs, which will be amortized through interest expense over the term of the additional NACoal Notes.

On March 8, 2005, NACoal replaced the NACoal Facility with a new five-year $75.0 million unsecured revolving line of credit and a five-year $55.0 million unsecured term loan facility. The term loan requires annual repayments of $10.0 million and a final principal repayment of $15.0 million in March 2010. The New NACoal Facility has performance-based pricing, which sets interest rates based upon achieving various levels of debt to EBITDA ratios, as defined in the New NACoal Facility. The New NACoal Facility provides for, at NACoal's option, Eurodollar loans which bear interest at LIBOR plus a margin based on the level of debt to EBITDA ratio achieved and Base Rate loans which bear interest at Base Rates plus the Applicable Margin, as defined in the New NACoal Facility. A facility fee, which is determined based on the level of debt to EBITDA ratio achieved is also applied to the aggregate revolving line of credit. The New NACoal Facility also contains restrictive covenants which require, among other things, NACoal to maintain certain debt to EBITDA and fixed charge coverage ratios and provides the ability to make loans, dividends and advances to NACCO, with some restrictions. As a result of this refinancing, the $55.0 million term loan balance outstanding at December 31, 2004 under the NACoal Facility has been included in Long-term Debt in the Consolidated Balance Sheets.

Discontinued Operations or Asset Disposals

1.168

AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4 (In Part): Operational Consolidation Charges

Subsequent Event

As part of continuing efforts to rationalize its manufacturing capabilities and respond to changing market conditions, the Company announced on February 15, 2005, its decision to seek a buyer for its Rockingham, NC manufacturing facility and to close the facility by the end of the third quarter of 2005, if no suitable buyer is found. The Rockingham plant has approximately 125 employees. The Company estimates the amount of the charge associated with this decision to be no more than approximately $13 million before tax. The charge is principally comprised of asset impairments, and likely will be reflected over more than one quarter, with all costs to be incurred by the third quarter of 2005.

1.169

THE J. M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note R. Subsequent Event

On June 16, 2004, the Company sold its Australian subsidiary, Henry Jones Foods (HJF) to SPC Ardmona Ltd. The transaction generated proceeds of approximately $35.7 million in cash and resulted in net gain of approximately $9.5 million. The sale of the subsidiary is consistent with the Company's stated strategy of owning and marketing North American icon brands.

Results of HJF's operations are included in the special markets segment.

The following table summarizes the carrying values of the assets and liabilities of HJF included in the Consolidated Balance Sheets:

	2004	2003
Assets:		
Current assets	$16,515	$25,136
Property, plant, and equipment	8,535	7,262
Goodwill	2,713	2,381
Other intangible assets, net	5,878	5,117
Other assets	687	363
Total assets disposed	$34,328	$40,259
Liabilities:		
Current liabilities	$ 4,962	$ 4,409
Noncurrent liabilities	336	304
Total liabilities	$ 5,298	$ 4,713
Accumulated other comprehensive (income) loss	$ (2,353)	3,044
Net assets	$26,677	$38,590

The following table summarizes the operating results of HJF included in the Statements of Consolidated Income.

	2004	2003	2002
Net sales	$36,864	$27,996	$25,850
Operating income	$3,435	$ 2,305	$2,253

Litigation

1.170

TOYS "R" US, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 28. Subsequent Events

On March 17, 2005, we annouced that we had entered into an Agreement and Plan of Merger, dated as of March 17, 2005 (the "Merger Agreement"), with Global Toys Acquisition. LIC ("Parent") and Global Toys Acquisition Merger Sub, Inc. ("Acuisition Sub") to sell our entire worldwide operations. including both our global Toys "R" Us and Babies "R" Us businesses. Parent and Acquisition Sub are entities directly and indirectly owned by an investment group consisting of entities advised by or affiliated with Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co., L.P., and Vornado Realty Trust.

The Merger Agreement contemplates that Acquisition Sub will be merged with and into the Company and each outstanding share of common stock of the Company will be converted into the right to receive $26.75 per share in cash, without interest. Upon completion of the proposed merger, all options will become fully vested and will be cashed out and cancelled. See Item 11 entitled "EXECUTIVE COMPENSATION—EFFECT OF THE MERGER ON OUTSTANDING EQUITY AWARDS."

On March 31, 2005, in accordance with the Merger Agreement, we submitted an election notice to purchase for $127 million our Global Store Support Center in Wayne, New Jesey leased pursuant to the lease agreement, dated September 26, 2001, between Wachovia Development Corporation and Toys "R" Us, Inc.

On April 6, 2005, pursuant to a written request received from Parent, we commenced a cash tender offer to purchase up to $403 million principal amount of our outstanding 6.25% Senior Notes due in 2007 (which were originally issued as part of our equity security units). The written request from Parent included a waiver of the applicable restrictive covenants under the Merger Agreement. At this time, we cannot predict the outcome of this tender offer. In addition, on April 26, 2005, we gave notice to The Depository Trust Company regarding a remarketing of these notes, which is expected to occur in May 2005.

In March 2005, two purported class action complaints were filed by putative stockholders of our Company in the Court of Chancery in the State of Delaware in and for New Castle County against the Company and certain of its officers and directors challenging the proposed merger. The first complaint, styled *Iron Workers of Western Pennsylvania Pension & Profit Plans v. Toys "R" Us, Inc.* (CA No. 1212–N), was filed on March 25, 2005 and the second complaint, styled *Jolly Roger Fund LP v. Toys "R" Us, Inc.* (CA No. 1218-N), was filed on March 31, 2005 (collectively, the "Complaints").

The Complaints raise substantially similar allegations on behalf of a purported class of the Company's stockholders against the defendants for alleged breaches of fiduciary duty in connection with the approval of the merger. The Complaints allege that in determining to enter into the Merger Agreement, the defendants failed to take appropriate steps to obtain maximum value for stockholders and did not engage in an adequate, conflict–free, fair process to obtain maximum value for stockholders, that certain directors and officers engaged in self–dealing and suffered from conflicts of interests, and that the defendants have failed to disclose all material information concerning the value of the Company and the process leading to the Merger Agreement. The Complaints seek to enjoin the consummation of the proposed merger or, alternatively, to rescind it. Plaintiffs also seek an award of damages for the alleged wrongs asserted in the Complaints.

The lawsuits are in their preliminary stages. On April 20, 2005, the cases were consolidated in the Court of Chancery in the State of Delaware in and for New Castle County. The defendants have moved to dismiss the lawsuits. The Company believes that the lawsuits are without merit and intends to defend vigorously against them.

Capital Stock Issued or Purchased

1.171

UNOCAL CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 30 (In Part): Subsequent Events

In January 2005, the Trust completed the redemption of its outstanding convertible preferred securities. Holders converted 4,550,738 preferred securities into Unocal common stock and 119, 143 convertible preferred securities were redeemed for $6 million. Including the 1.25-percent redemption premium and unpaid distributions, the total cash cost of the redemption program was $6.1 million. In connection with the redemption program completion, Unocal redeemed $242 million of its convertible junior subordinated debentures held by the Trust using cash on hand and by issuing Unocal common stock in January 2005. The Trust utilized the cash it received from Unocal to redeem the preferred securities and to retire the Trust's common securities, which Unocal held as an investment.

Stock Splits/Dividends

1.172

AETNA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Subsequent Event

On February 9, 2005, the Board declared a two-for-one stock split of the Company's common stock to be effected in the form of a 100% common stock dividend. All shareholders of record on February 25, 2005 will receive one additional share of common stock for each share held on that date. The additional share of common stock will be distributed to shareholders of record in the form of a stock dividend on March 11, 2005.

Information pertaining to shares and earnings per share has not been restated in the accompanying financial statements and notes to the consolidated financial statements to reflect this split. This information will be presented effective after the stock dividend is distributed (i.e. with the Company's March 31, 2005 interim condensed financial statements). Information on a pro forma basis, reflecting the impact of this split for the years ending December 31, 2004, 2003 and 2002 is as follows:

(Millions, except per common share data)	Income (Loss) (Numerator)	Shares (Denominator)	Per Common Share Amount
2004			
Basic EPS:			
Income from continuing operations	$ 1,215.1	302.8	$ 4.01
Income from discontinued operations, net of tax	1,030.0		3.40
Net Income	$ 2,245.1	302.8	$ 7.41
Diluted EPS:			
Income from continuing operations and assumed conversions	$ 1,215.1	314.0	$ 3.87
Income from discontinuing operations, net of tax	1,030.0		3.28
Net income and assumed conversions	$ 2,245.1	314.0	$ 7.15
2003			
Basic EPS:			
Net Income	$ 933.8	305.4	$ 3.06
Diluted EPS:			
Net income assumed conversions	$ 933.8	316.2	$ 2.95
2002			
Basic EPS:			
Income from continuing operations	$ 393.2	297.8	$ 1.32
Income from discontinued operations	50.0		0.17
Income before cumulative effect adjustments	443.2		1.49
Cumulative effect adjustments, net of tax	(2,965.7)		(9.96)
Net loss	$(2,522.5)	297.8	$(8.47)
Diluted EPS:			
Income from continuing operations and assumed conversions	$ 393.2	305.8	$ 1.29
Income from discontinued operations	50.0		0.16
Income before cumulative effect adjustments	443.2		1.45
Cumulative effect adjustments, net	(2,965.7)		(9.70)
Net loss and assumed conversions	$(2,522.5)	305.8	$(8.25)

Employee Benefits

1.173

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Subsequent Events (Unaudited)

Pension Plan and 401 (k) Plans

The retirement plans review committee of our board of directors reviewed management's recommendations with respect to certain modifications of our retirement benefits and requested that such recommendations be submitted to the board of directors for approval. On October 29, 2004, our board of directors approved and adopted changes to our 401 (k) retirement savings plans that cover our salaried and nonunion hourly employees and to our defined benefit plans that cover our salaried and nonunion hourly employees (which we refer to as our "pension plan"). We have summarized these changes below. The changes are effective January 1, 2005, and March 1, 2005, based on an employee's status on December 31, 2004.

Beginning January 1, 2005, the following changes will be effective for our salaried and non-union hourly employees:

- Effective January 1, 2005, employees hired on or after January 1, 2005, will not be eligible to participate in eat pension plan. We will provide the following enhanced 401 (k) plan match for such employees (the "enhanced

401(k) Plan match"): 100% match on the first 3% of eligible pay contributed by the employee and 50% match on the next 2% of eligible pay contributed by the employee.

- Effective January 1, 2005, employees who are less than 35 years old and who have less than 5 years of vesting service on December 31, 2004, will not be eligible to participate in our pension plan after December 31, 2004. Pension benefits earned through December 31, 2004, will be paid upon retirement in accordance with applicable plan rules. We will provide the enhanced 401 (k) Plan match for such employees effective January 1, 2005.
- Effective March 1, 2005, employees who are 35 years old or older or who have 5 years or more of vesting service on December 31, 2004, will be required to elect one of two options: (1) a reduced future pension accrual based on a revised benefit formula and the current 401 (k) plans' match or (2) no future pension accrual and the enhanced 401 (k) Plan match. In either event, pension benefits earned through February 28, 2005, will be paid upon retirement in accordance with applicable plan rules.

During fiscal 2004, 2003 and 2002, we contributed an amount to each participant's account maintained under our 401 (k) plans equal to 50% of the participant's contributions, provided that the contributions do not exceed (a) 6% of the participant's earnings or (b) the amount allowable under the limits imposed under Sections 401 (a) and 415 (c) of the Code, whichever was lower.

We are unable to estimate the full impact, the amendments will have on future expense for our pension plan or our 401 (k) plans until our employees have made their election. However, we do not believe the impact of these changes will have a material effect on our results of operations, financial condition or cash flows.

Reorganization/Bankruptcy

1.174

EXIDE TECHNOLOGIES (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. Subsequent Events

On April 15, 2004 the Company paid off the 9.125% senior Deutsche Mark denominated notes. The Replacement DIP Credit Facility was used to finance the payment of the notes.

On April 21, 2004, the Bankruptcy Court confirmed the Plan previously submitted jointly by the Company and the Official Committee of Unsecured Creditors. The Company declared May 5, 2004 as the effective date of the Plan, and substantially consummated the transactions provided for in the Plan on such date.

The following is a summary of certain transactions which became effective Date pursuant to consummation of the Plan.

- Except to the extent otherwise provided in the Plan, all notes, instruments, certificates, and other documents evidencing (i) the Company's 10% senior notes due 2005, (ii) the Company's 2.9% convertible notes due 2005, (iii) equity interests in the Debtors, including, but not limited to, all issued, unissued, authorized or outstanding shares or stock, together with any warrants, options or contract rights to purchase or acquire such interests at any time, were canceled, and the obligations of the Debtors thereunder or in any way related thereto were discharged.
- The Company was authorized to issue (i) 25,000 shares of new common stock, par value $0.01 per share (the "Common Stock") for distribution in accordance with the Plan, and (ii) warrants initially exercisable for 6,250 shares of Common Stock (the "Warrants"). Pursuant to the terms of the Plan, the Common Stock and Warrants are being distributed as follows:
  - holders of pre-petition credit facility claims received collectively 22,500 shares of Common Stock; and
  - holders of general unsecured claims received collectively 2,500 shares of Common Stock and Warrants to purchase 6,250 shares of Common Stock at $32.11 per share, with approximately 13.4% of such Common Stock and Warrants to be reserved for distribution for disputed claims under the Plan's claims reconciliation and allowance procedures.

  Under the claims reconciliation and allowance process set forth in the Plan, the Official Committee of Unsecured Creditors, in consultation with the Company, established the reserve to provide for a pro rata distribution to holders of disputed claims as they become allowed. Although predictions regarding the allowance and classification of claims are inherently difficult to make, based on the Company's review to date of the available information, the Company believes the reserve is reasonable and adequate. To the extent the reserved shares of Common Stock and Warrants are insufficient to provide such payment, the Company may issue additional shares of Common Stock and Warrants. In that event, the Company will also issue shares of Common Stock to the holders of pre-petition credit facility claims sufficient to preserve the relative value of their recoveries under the terms of the Plan.
- Holders of administrative claims claims derived from the Company's $500,000 secured super periority debtor-in-possession credit agreement and priority tax claims are being paid in full in cash pursuant to the terms of the Plan.
- The Company adopted an Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws.
- The Company entered into a Warrant Agreement.
- The Company's Board of Directors was reconstituted top consist of seven members, as specified in accordance with the Plan.
- The Company entered into a new $600,000 Senior Secured Credit Agreement (the "Credit Agreement") which includes a $500,000 Multi-Currency Term Loan Facility and a $100,000 Multi-Currency Revolving Loan Facility including a letter of credit sub-facility of up to $40,000. The Revolving Loan Facility matures on May 5, 2009 while the Term Loan Facility, which includes quarterly principal payments beginning in September 2005, matures on May 5, 2010. The Term Loan Facility bears interest at LIBOR plus 3.5% per annum and EURO-LIBOR Plus 4.0% per annum for the U.S. Dollar and Euro components, respectively. The Revolving Loan

Facility bears interest at LIBOR plus 4.0% per annum. As of the Effective Date, the Company had $500,000 outstanding under the Term Loan Facility and had not drawn on the Revolving Loan Facility. Proceeds of the Term Loan Facility were used to finance the repayment of the Replacement DIP Credit Facility and to finance various costs and expenses associated with the exit financing and the Plan. Absent the refinancing described above, the Company would have required amendment of certain covenants under the Replacement DIP Credit Facility.

The Credit Agreement requires the Company to comply with financial convenants with respect to certain ratios and tests, as defined in the Credit Agreement, including interest coverage, leverage, earnings, asset coverage and capital expenditures. Although there can be no assurances, the Company believes, based uon its financial forecast and plans, that it will comply with these convenants for the foreseeable future. Failure to comply with such convenants, without waiver, would result in an event of default under the Credit Agreement. If the Company were not able to maintain compliance with these convenants, it would have to consider additional actions, including refinancings, asset sales and further restructurings. Credit Agreement borrowings are guaranteed by substantially all of the subsidiaries of the Company and are secured by substantially all of the assets of the Company and the subsidiary guarantors. The Credit Agreement also contains other customary convenants, including reporting convenants and convenants that restrict the Company's ability to incur indebtedness, create or incur lines, sell or dispose of assets, make investments, pay dividends, change the nature of the Company's business or enter into related party transactions.

Tax Resolution

1.175

NEWELL RUBBERMAID INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Footnote 22 (In Part): Subsequent Events

Resolution of Tax Contingencies

During the first quarter of 2005, the Company reached agreement with the Internal Revenue Service (IRS) relating to the appropriate treatment of a specific transaction reflected on the Company's 2003 US federal income tax return. The Company requested accelerated review of the transaction under the IRS' Pre-Filing Agreement Program that resulted in affirmative resolution in late January 2005. The Company's December 31, 2004 and 2003 balance sheet reflected a $58 million and $57 million contingency reserve, respectively, for this transaction pending resolution of the appropriate treatment with the IRS. The benefit of this transaction will be recorded in the Company's first quarter 2005 income statement.

RELATED PARTY TRANSACTIONS

1.176 SFAS No. 57, *Related Party Disclosures*, specifies the nature of information which should be disclosed in financial statements about related party transactions. In 2004, 281 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Sale of Receivables to Subsidiary

1.177

AGCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts and Notes Receivable (In Part)

The Company transfers certain accounts receivable to various financial institutions primarily under its accounts receivable securitization facilities (Note 4). The Company records such transfers as sales of accounts receivable when it is considered to have surrendered control of such receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of SFAS No. 125."

4. Accounts Receivable Securitization

At December 31, 2004 and 2003, the Company has accounts receivable securitization facilities in the United States, Canada, and Europe totaling approximately $499.1 million and $448.5 million, respectively. The Company completed the U.S. securitization facility in 2000 and completed the Canadian and European securitization facilities in 2001. During the second quarter of 2004, the Company amended certain provisions of its United States and Canada receivable securitization facilities including the expansion of the facilities by an additional $30.0 million and $10.0 million, respectively, and to eliminate the ratings triggers in the facilities. At December 31, 2004, these additional amounts had not been utilized. Outstanding funding under these facilities totaled approximately $458.9 million at December 31, 2004 and $448.4 million at December 31, 2003. The funded balance has the effect of reducing accounts receivable and short-term liabilities by the same amount.

Under these facilities, wholesale accounts receivable are sold on a revolving basis to commercial paper conduits either on a direct basis or through a wholly-owned special purpose U.S. subsidiary. The Company has reviewed its accounting for its securitization facilities and its wholly-owned special purpose U.S. entity in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125" ("SFAS No. 140") and FAS Interpretation No. 46R "Consolidation of Variable Interest Entities—An Interpretation of ARB No. 51" ("FIN 46R"). Due to the fact that the receivables sold to the commercial paper conduits are an insignificant portion of the conduits' total asset portfolios and such receivables are not siloed, consolidation is not appropriate under FIN 46R, as the Company does not absorb a majority of losses under such transactions. In addition, these facilities are accounted for as off-balance sheet transactions in accordance with SFAS No. 140.

Losses on sales of receivables primarily from securitization facilities were $15.6 million in 2004, $14.6 million in 2003 and $14.8 million in 2002, and are included in "other expense, net" in the Company's Consolidated Statements of Operations. The losses are determined by calculating the estimated present value of receivables sold compared to their carrying amount. The present value is based on historical collection experience and a discount rate representing the spread over LIBOR as prescribed under the terms of the agreements. Other information related to these facilities and assumptions used in loss calculations are summarized below (dollar amounts in millions):

	U.S.		Canada		Europe		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Unpaid balance of receivables sold at December 31	$313.4	$307.6	$90.7	$95.9	$174.1	$160.9	$578.2	$564.4
Retained interest in receivables sold	$ 63.4	$ 57.6	$30.7	$35.9	$ 25.0	$ 22.4	$119.1	$115.9
Credit losses on receivables sold	$ 0.3	$ 1.6	$ —	$ —	$ —	$ —	$ 0.3	$ 1.6
Average liquidation period (months)	5.2	6.3	5.2	6.3	2.3	2.9	—	—
Discount rate	2.1%	1.8%	2.9%	3.6%	3.0%	3.2%	—	—

The Company continues to service the sold receivables and maintains a retained interest in the receivables. No servicing asset or liability has been recorded since the estimated fair value of the servicing of the receivables approximates the servicing income. The retained interest in the receivables sold is included in the caption "Accounts and notes receivable, net" in the accompanying Consolidated Balance Sheets. The Company's risk of loss under the securitization facilities is limited to a portion of the unfunded balance of receivables sold which is approximately 95% of the funded amount. The Company maintains reserves for the portion of the residual interest it estimates is uncollectible. At December 31, 2004 and 2003, approximately $11.1 million and $5.2 million, respectively, of the unpaid balance of receivables sold was past due 60 days or more. The fair value of the retained interest is approximately $116.8 million and $113.6 million, respectively, compared to the carrying amount of $119.1 million and $115.9 million, respectively, at December 31, 2004 and 2003, and is based on the present value of the receivables calculated in a method consistent with the losses on sales of receivables discussed above. Assuming a 10% and 20% increase in the average liquidation period, the fair value of the residual interest would decline by $0.2 million and $0.5 million, respectively. Assuming a 10% and 20% increase in the discount rate assumed the fair value of the residual interest would decline by $0.2 million and $0.5 million, respectively. For 2004, the Company received approximately $1,270.2 million from sales of receivables and $5.6 million for servicing fees. For 2003, the Company received $1,047.8 million from sales of receivables and $5.7 million for servicing fees. For 2002, the Company received approximately $919.5 million from sales of receivables and $5.7 million for servicing fees.

Transaction Between Reporting Entity and Investee

1.178

HURCO COMPANIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Related Party Transactions

We own approximately 24% of one of our Taiwanese-based contract manufacturers. This investment of $745,000 is accounted for using the equity method and is included in Investments and Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer totaled $4.4 million, $3.7 million, and $5.9 million for the years ended October 31, 2004, 2003 and 2002, respectively. Sales of product to this contract manufacturer were $199,000 and $205,000 in fiscal 2004 and 2003 respectively. Trade payables to this contract manufacturer were $115,000 at October 31, 2004, $111,000 at October 31, 2003. Trade receivable were $62,000 at October 31, 2004 and $108,000 at October 31, 2003.

As of October 31, 2004, we owned 35% of Hurco Automation, Ltd. (HAL), a Taiwan based company. HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automation products, software systems and related components, including control systems and components manufactured under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of $1.5 million at October 31, 2004 is included in Investments and Other Assets on the

Consolidated Balance Sheet. Purchases of product from this supplier amounted to $6.6 million, $4.8 million, and $4.1 million in 2004, 2003 and 2002, respectively. Sales of product to this supplier were $1.9 million, $1.2 million and $.9 million for the years ended October 31, 2004, 2003 and 2002, respectively. Trade payables to HAL were $2.5 million and $1.2 million at October 31, 2004 and 2003, respectively. Trade receivables from HAL were $581,000 and $278,000 at October 31, 2004 and 2003, respectively.

Summary financial information for the two affiliates accounted for using the equity method of accounting are as follows:

(000's)	2004	2003	2002
Net sales	$23,469	$26,284	$25,013
Gross profit	7,780	4,409	4,173
Operating income	2,210	564	127
Net income	1,479	261	425
Current assets	$16,194	$17,162	$12,842
Non-current assets	2,031	2,015	1,756
Current liabilities	17,215	13,549	9,460

1.179

UNIVERSAL HEALTH SERVICES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Related Party Transactions

At December 31, 2004, we held approximately 6.7% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). We serve as Advisor to the Trust under an annually renewable advisory agreement. Pursuant to the terms of this advisory agreement, we conduct the Trust's day-to-day affairs, provide administrative services and presents investment opportunities. In addition, certain of our officers and directors are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore we account for our investment in the Trust using the equity method of accounting. Our pre-tax share of income from the Trust was $1.6 million in 2004, $1.6 million during 2003 and $1.4 million during 2002, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.5 million and $9.4 million at December 31, 2004 and 2003, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $25.2 million at December 31, 2004 and $23.4 million at December 31, 2003.

As of December 31, 2004, we leased five hospital facilities from the Trust with terms expiring in 2006 through 2009. These leases contain up to five 5-year renewal options. In addition, certain of our subsidiaries are tenants in several medical office buildings owned by limited liability companies in which the Trust holds non-controlling ownership interest.

On December 31, 2004, we completed the purchase of the real estate assets of the Virtue Street Pavilion, located in Chalmette, Louisiana, from the Trust. The purchase was completed pursuant to the exercise of an option granted to us, under the previous lease for the facility. The purchase price for the facility was $7.3 million and was determined, in accordance with the terms of the lease, based upon independent appraisals obtained by both us and the Trust.

During the third quarter of 2004, we exercised the five-year renewal option on a behavioral health hospital leased from the Trust which was scheduled to expire in December, 2004. The lease was renewed at the same lease terms. During 2002, we exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in March, 2003. The renewal rate on this facility was based upon the five-year Treasury rate on March 29, 2003 plus a spread.

During 2003, we sold four medical office buildings located in Las Vegas, Nevada, for combined cash proceeds of $12.8 million, to limited liability companies, in which the Trust holds non-controlling majority ownership interests. The sale of these medical office buildings resulted in a pre-minority interest and pre-tax gain of $3.1 million ($1.4 million after minority interest expense and after-tax) which is included in our 2003 results of operations. Tenants of these buildings include certain of our subsidiaries.

Future minimum lease payments to the Trust are included in Note 7. Total rent expense under these operating leases was $17.4 million in 2004, $17.4 million in 2003 and $17.2 million in 2002. As of December 31, 2004, the aggregate fair market value of our facilities leased from the Trust is not known, however, the aggregate original purchase price paid by the Trust for these properties was $101.3 million (excluding the Virtue Street Pavilion). Pursuant to the terms of the leases with the Trust, we have the option to purchase the respective leased facilities at the end of the lease terms or any renewal terms at the appraised market value. In addition, we have rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer. The terms of the leases also provide that in the event we discontinue operations at the leased facility for more than one year, or elect to terminate a lease prior to the expiration of its term for prudent business reasons, we are obligated to offer a substitution property. If the Trust does not accept the substitution property offered, we are obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust.

We received an advisory fee from the Trust of $1.5 million in 2004, $1.5 million in 2003 and $1.4 million in 2002 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

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Our Chairman and Chief Executive Officer is member of the Board of Directors of Broadlane, Inc. In addition, the Company and certain members of executive management own approximately 6% of the outstanding shares of Broadlane, Inc. as of December 31, 2004. Broadlane, Inc. provides contracting and other supply chain services to us and various other healthcare organizations.

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We invested $3.3 million for a 25% ownership interest in an information technology company that provides laboratory information system and order management technology to many of our acute care hospitals. During 2004, we also committed to pay this company a license fee totaling $25.3 million over a five-year period.

Transaction Between Reporting Entity and Major Stockholder

1.180

COX COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Organization and Basis of Presentation

Prior to December 2004, Cox Communications, Inc. was an indirect, majority-owned subsidiary of Cox Enterprises, Inc. (CEI). In October 2004, CEI and two of its wholly-owned subsidiaries entered into an Agreement and Plan of Merger with Cox. Pursuant to this merger agreement. Cox and one of the CEI subsidiaries commenced a joint tender offer to purchase all of the shares of Cox Class A common stock not beneficially owned by CEI. On December 8, 2004. CEI completed the tender offer to purchase all of the common stock associated with the 37.96% minority interest of Cox. Following the purchase, Cox was merged with a CEI subsidiary, with Cox as the surviving corporation. Accordingly, at December 31, 2004, Cox was a wholly-owned subsidiary of CEI.

14 (In Part): Shareholders Equity

Other

At December 31, 2004, CEI owned 100% of the outstanding shares of Cox common stock. At December 31, 2003, CEI owned approximately 63.4% of the outstanding shares of Cox common stock and held 73.9% of the voting power of Cox.

15. Transactions With Affiliated Companies

Cox receives certain services from, and has entered into certain transactions with, CEI. Costs of the services that are allocated to Cox are based on actual direct costs incurred or on CEI's estimate of expenses relative to the services provided to other subsidiaries of CEI. Cox believes that these allocations were made on a reasonable basis, and that receiving these services from CEI creates cost efficiencies; however, there has been no study or any attempt to obtain quotes from third parties to determine what the cost of obtaining such services from third parties would have been. The services and transactions described below have been reviewed by Cox's Audit Committee (or, in the case of the going-private transaction, a special committee comprised of the members of the Audit Committee), which has determined that such services and transactions are or were fair and in the best interests of Cox.

- Cox receives day-to-day cash management services from CEI, with settlements of outstanding balances between Cox and CEI occurring periodically at market interest rates. The amounts due to CEI are generally due on demand and represent the net balance of the intercompany transactions. Prior to May 2, 2003, outstanding amounts due from CEI bore interest equal to CEI's current commercial paper borrowing rate and outstanding amounts due to CEI bore interest at 50 basis points above CEI's current commercial borrowing rate as payment for the services provided. From and after May 2, 2003, both outstanding amounts due from and to CEI bear interest equal to CEI's current commercial paper borrowing rate as payment for the services provided. Amounts due to CEI from Cox were approximately $5.6 million and $4.0 million at December 31, 2004 and 2003, respectively; and, and the associated interest rate was 2.4% and 1.3% at December 31, 2004 and 2003, respectively. Included in amounts due from CEI are the following transactions:

(Thousands of dollars)	
Intercompany due from CEI, December 31, 2001	$ 13,245
Cash transferred to CEI	92,061
Net operating expense allocations and reimbursements	(84,197)
Intercompany due from CEI, December 31, 2002	21,109
Cash transferred to CEI	221,117
Net operating expense allocations and reimbursements	(246,206)
Intercompany due to CEI, December 31, 2003	(3,980)
Cash transferred to CEI	288,821
Net operating expense allocations and reimbursements	(290,414)
Intercompany due to CEI, December 31, 2004	$ (5,573)

- Cox receives certain management services from CEI including legal, corporate secretarial, tax, internal audit, risk management, employee benefit (including pension plan) administration, fleet and other support services. Cox was allocated expenses for the year ended December 31, 2004, 2003 and 2002 of approximately $7.4 million, $6.0 million and $6.2 million, respectively, related to these services.
- In connection with these management services, Cox reimburses CEI for payments made to third-party vendors for certain goods and services provided to Cox under arrangements made by CEI on behalf of CEI and its affiliates, including Cox. Cox believes such arrangements result in Cox receiving such goods and services at more attractive pricing than Cox would be able to secure separately. Such reimbursed expenditures include insurance premiums for coverage through the CEI insurance program, which provides coverage for all of its affiliates, including Cox. Rather than self-insuring these risks, CEI purchases insurance for a fixed-premium cost from several insurance companies, including an insurance company indirectly owned by descendants of Governor James M. Cox, the founder of CEI, including James C. Kennedy, Chairman of Cox's Board of Directors, and his sister, who each own 25%. This insurance company is an insurer and reinsurer on various insurance policies purchased by CEI, and it employs an independent consulting actuary to calculate the annual premiums for general/auto liability and workers compensation insurance based on Cox's loss experience, consistent with insurance industry practice. Cox's portion of these insurance costs was approximately

$32.0 million, $32.0 million and $27.2 million for 2004, 2003 and 2002, respectively.

- Cox's employees participate in certain CEI employee benefit plans, and Cox made payments to CEI in 2004, 2003 and 2002 for the costs incurred by reason of such participation, including self-insured employee medical insurance costs of approximately $110.4 million, $86.7 million and $77.5 million, respectively; postemployment benefits of $10.2 million, $8.4 million and $7.3 million, respectively; and executive pension plan payments of approximately $6.4 million in 2004 and 2003 and $2.8 million in 2002. In January 2003, Cox adopted its own post-retirement medical plan to provide benefits to substantially all eligible Cox retirees. Prior to January 2003, all eligible retirees of Cox participated in the CEI post-retirement medical plan. Cox made payments to CEI in 2002 of approximately $3.9 million or the costs incurred by reason of such participation.
- Cox and CEI share resources relating to aircraft owned by each company. Depending on need, each occasionally uses aircraft owned by the other, paying a cost-based hourly rate. CEI also operates and maintains two airplanes owned by Cox. Cox pays CEI on a quarterly basis for fixed and variable operations and maintenance costs relating to these two airplanes. Cox paid approximately $1.2 million during 2004 and 2003 and $0.7 million during 2002 for use of CEI's aircraft and maintenance of Cox's aircraft by CEI, net of aircraft costs paid by CEI to Cox for use of Cox's aircraft.
- Cox pays rent and certain other occupancy costs to CEI for its corporate headquarters building. CEI holds the long-term lease of the Cox headquarters building and prior to 2002, Cox and CEI and its other affiliates shared occupancy of the headquarters building. During 2002, CEI and its other affiliates moved to a new facility and Cox purchased from CEI business equipment located in the headquarters building at its depreciated net book value of approximately $7.2 million, which is believed to approximate fair value. Cox is now the sole occupant of its headquarters building. Rent was $9.9 and $11.2 million for the years ended December 31, 2004 and 2003, respectively. Prior to 2003, related rent and occupancy expense was allocated based on occupied space, and for the year ended December 31, 2002, was approximately $7.4 million.
- From 1997 through 2002, Cox entered into a series of local joint ventures with Cox Interactive Media, Inc., an indirect wholly owned subsidiary of CEI, to develop, operate and promote advertising supported local Internet content, or "City Sites", in the markets where Cox operates cable television systems featuring high-speed Internet access. Cox contributed approximately $41.1 million in the aggregate to the joint ventures for the period from inception through May 31, 2002 to fund its share of operating costs. During 2002, Cox and Cox Interactive Media agreed to terminate the relationship and entered into a transition services agreement under which Cox paid Cox Interactive Media approximately $7.0 million to continue to operate Cox's city sites during a transition period. The joint venture entities were dissolved as of December 31, 2002, and pursuant to a separate agreement dated December 31, 2002, Cox purchased certain assets used in the operation of the City Sites for insignificant cash consideration. Cox will use those assets to develop the City Sites as part of Cox High Speed Internet service. Cox Interactive Media agreed to reimburse Cox approximately $0.2 million for certain expenses incurred in connection with obtaining certain software licenses related to the City Sites.
- In connection with CEI's sale of shares of Cox Class A common stock to two private investors in 2001, Cox entered into agreements providing the two private investors with certain demand and piggyback registration rights. CEI had agreed to pay all fees and expenses associated with Cox's performance under these registration rights agreements. These registration rights agreements have terminated in accordance with their terms.

Cox pays fees to certain entities in which it has an ownership interest in exchange for cable programming. Programming fees paid to such affiliates for the years ended December 31, 2004, 2003 and 2002 were approximately $92.9 million, $86.2 million and $78.8 million, respectively, the majority of which were paid to Discovery Communications, Inc.

CEI and two of its wholly-owned subsidiaries entered into an Agreement and Plan of Merger with Cox in October 2004. Pursuant to this merger agreement, Cox and one of the CEI subsidiaries commenced a joint tender offer to purchase the shares of Cox Class A common stock not beneficially owned by CEI, and in December 2004, the CEI subsidiary acquired approximately 190.5 million shares of Class A common stock in accordance with the terms of the tender offer. Following that purchase, Cox was merged with a CEI subsidiary, with Cox as the surviving corporation. Accordingly, at December 31, 2004, Cox was a wholly-owned subsidiary of CEI.

Transaction Between Reporting Entity and Officer/Director

1.181

HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Related Party Transactions

We lease several buildings and properties from certain related parties, including our Chairman of the Board, two other members of the Board of Directors, and an executive officer. The leases generally provide that all expenses related to the properties are to be paid by us. Rents paid under these leases totaled $2.6 million, $2.5 million and $2.1 million in fiscal years 2005, 2004 and 2003. respectively.

On October 12, 2004, we agreed to and executed an agreement to purchase a storage facility and associated property for $1.7 million from a company owned by a member of our Board of Directors and the Chairman of the Board. We had previously occupied this property under a long-term lease.

In conjunction with our equity offering in October 2004, our Chairman of the Board offered 0.3 million shares as a selling shareholder, we did not receive any proceeds from his sale. We incurred approximately $21,000 of costs associated with the equity offering on his behalf for which we were reimbursed in the third quarter of fiscal year 2005.

During fiscal years 2005, 2004, and 2003, we approved donations totaling $1.1 million, $0.3 million and $0.9 million, respectively, to the Hughes Supply Foundation, Inc. ("HSF"), a not-for-profit charitable organization designed to help provide financial assistance for families and communities in need in areas where we operate. The Board of Directors of HSF is comprised of certain of our executives, including the Chairman of the Board, the President and Chief Executive Officer, and the Executive Vice President and Chief Financial Officer.

1.182

PHILLIPS-VAN HEUSEN CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amount in thousands)

18 (In Part): Other Comments

One of the Company's directors, Mr. Harry N.S. Lee, is a director of TAL Apparel Limited, an apparel manufacturer and exporter based in Hong Kong. During 2004, 2003 and 2002, the Company purchased approximately $15,295, $13,507 and $14,390, respectively, of products from TAL Apparel Limited and certain related companies.

One of the Company's directors, Joel H. Goldberg, owns Career Consultants Inc. and S&K Associates, Inc. During 2004, 2003 and 2002, the Company purchased services of approximately $1,220, $1,294 and $1,083, respectively, from Mr. Goldberg and his two companies for management consulting and recruiting.

Transaction Between Reporting Entity and Variable Interest Entity

1.183

CONOCOPHILLIPS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Consolidation Principles and Investments (In Part)

Our consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where we are the primary beneficiary.

Note 2 (In Part): Changes in Accounting Principles

Consolidation of Variable Interest Entities

During 2003, the FASB issued and then revised Interpretation No. 46, "Consolidation of Variable Interest Entities," (FIN 46(R)) to expand existing accounting guidance about when a company should include in its consolidated financial statements the assets, liabilities and activities of another entity. Effective January 1, 2003, we adopted FIN 46(R), which causes us to consolidate all variable interest entities (VIEs) where we conclude we are the primary beneficiary. In addition, we deconsolidated one entity in 2003 where we determined that we were not the primary beneficiary.

In general, a VIE is any legal structure used for business purposes that either (a) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (b) has a group of equity owners that are unable to make significant decisions about its activities, or (c) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. FIN 46(R) requires a VIE to be consolidated by a company if that company is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns, or both (the company required to consolidate is called the primary beneficiary). It also requires deconsolidation of a VIE if a company is not the primary beneficiary of the VIE. The interpretation also requires disclosures about VIEs that a company does not consolidate, but in which it has a significant variable interest, and about any potential VIE when a company is unable to obtain the information necessary to confirm if an entity is a VIE or determine if a company is the primary beneficiary.

In February 2003, we entered into two agreements establishing separate guarantee facilities of $50 million each for two liquefied natural gas ships that were then under construction. Subject to the terms of each facility, we will be required to make payments should the charter revenue generated by the respective ship fall below certain specified minimum thresholds, and we will receive payments to the extent that such revenues exceed those thresholds. The net maximum future payments over the 20-year terms of the two agreements could be up to an aggregate of $100 million. Actual gross payments over the 20 years could exceed that amount to the extent cash is received by us. In September 2003, the first ship was delivered to its owner and the second ship is scheduled for delivery to its owner in mid-2005. At December 31, 2003, we reported these two entities could potentially be VIEs, but that we had been unable to obtain sufficient information to confirm that the entities were VIEs or to determine if we were the primary beneficiary. In the first quarter of 2004, we received the required information related to the entity associated with the first ship and determined that it was a VIE; however, because we are not the primary beneficiary we did not consolidate the entity. In regard to the first ship, the amount drawn under the guarantee facility at December 31, 2004, was less than $1 million. With regard to the second ship, we expect to have a variable interest in the associated entity once the ship is delivered to its owner in mid-2005. At that time, we will determine if the entity is a VIE, and if we are the primary beneficiary. We currently account for these agreements as guarantees and contingent liabilities. See Note 15—Guarantees for additional information.

The adoption of FIN 46(R) resulted in the following:

Consolidated VIEs

- We consolidated certain VIEs from which we lease certain ocean vessels, airplanes, refining assets, marketing sites and office buildings. The consolidation increased net properties, plants and equipment by $940 million and increased assets of discontinued operations held for sale by $726 million (both are collateral for the debt obligations); increased cash by $225 million; increased debt by $2.4 billion; increased minority interest by $90 million; reduced other accruals by $263 million, and resulted in a cumulative after-tax effect-of-adoption loss that decreased net income and common stockholders' equity by $240 million. However, during 2003 we exercised our option to purchase most of these assets and as a result, the leasing arrangements and our involvement with all but one of the associated VIEs was terminated. At December 31, 2004, we continue to lease refining assets totaling $121 million, which are collateral for the debt obligations of $118 million from a VIE. Other than the obligation to make lease payments and residual value guarantees, the creditors of the VIE have no recourse to our general credit. In addition, we discontinued hedge accounting for an interest rate swap since it had been designated as a cash flow hedge of the variable interest rate component of a lease with a VIE that is now consolidated. At December 31, 2004, the fair market value of the swap was a liability of $7 million.

- Ashford Energy Capital S.A. continues to be consolidated in our financial statements under the provisions of FIN 46(R) because we are the primary beneficiary. In December 2001, in order to raise funds for general corporate purposes, Conoco and Cold Spring Finance S.a.r.l. formed Ashford Energy Capital S.A. through the contribution of a $1 billion Conoco subsidiary promissory note and $500 million cash. Through its initial $500 million investment, Cold Spring is entitled to a cumulative annual preferred return, based on three-month LIBOR rates, plus 1.32 percent. The preferred return at December 31, 2004, was 3.34 percent. In 2008, and each 10-year anniversary thereafter, Cold Spring may elect to remarket their investment in Ashford, and if unsuccessful, could require ConocoPhillips to provide a letter of credit in support of Cold Spring's investment, or in the event that such letter of credit is not provided, then cause the redemption of their investment in Ashford. Should ConocoPhillips' credit rating fall below investment grade, Ashford would require a letter of credit to support $475 million of the term loans, as of December 31, 2004, made by Ashford to other ConocoPhillips subsidiaries. If the letter of credit is not obtained within 60 days, Cold Spring could cause Ashford to sell the ConocoPhillips subsidiary notes. At December 31, 2004, Ashford held $1.7 billion of ConocoPhillips subsidiary notes and $25 million in investments unrelated to ConocoPhillips. We report Cold Spring's investment as a minority interest because it is not mandatorily redeemable and the entity does not have a specified liquidation date. Other than the obligation to make payment on the subsidiary notes described above, Cold Spring does not have recourse to our general credit.

Unconsolidated VIEs

- Phillips 66 Capital II (Trust) was deconsolidated under the provisions of FIN 46(R) because ConocoPhillips is not the primary beneficiary. During 1997 in order to raise funds for general corporate purposes, we formed the Trust (a statutory business trust), in which we own all common beneficial interests. The Trust was created for the sole purpose of issuing mandatorily redeemable preferred securities to third-party investors and investing the proceeds thereof in an approximate equivalent amount of subordinated debt securities of ConocoPhillips. Application of FIN 46(R) required deconsolidation of the Trust, which increased debt in 2003 by $361 million since the 8% Junior Subordinated Deferrable Interest Debentures due 2037 were no longer eliminated in consolidation, and the $350 million of mandatorily redeemable preferred securities were deconsolidated.

In 2003, we recorded a charge of $240 million (after an income tax benefit of $145 million) for the cumulative effect of adopting FIN 46(R). The effect of adopting FIN 46(R) increased 2003 income from continuing operations by $34 million, or $.05 per basic and diluted share. Excluding the cumulative effect, the adoption of FIN 46(R) increased net income by $139 million, of $.20 per basic and diluted share in 2003.

1.184

LA-Z-BOY INCORPORATED (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of La-Z-Boy Incorporated and its majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Additionally, we adopted Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), as of April 24, 2004, which resulted in the consolidation of several of our independently owned La-Z-Boy Furniture Galleries® dealers. Refer to Note 20 and New Pronouncements for further discussion of FIN 46.

New Pronouncements (In Part)

FIN 46, which was issued in December 2003, requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. FIN 46 also requires the disclosure of information about the VIE's assets and liabilities and the nature, purpose and activities of consolidated VIEs in its financial statements. Additionally, FIN 46 requires disclosure of information about the nature, purpose and activities for unconsolidated VIEs in which a company holds a significant variable interest. In general, a VIE is a corporation, partnership, limited liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support; (ii) has a group of equity owners that are unable to make significant decisions about its activities; or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

We have adopted the provisions of FIN 46 as of April 24, 2004, which resulted in the consolidation of several VIEs. Refer to Note 20 for further discussion.

Note 20. Variable Interest Entities

Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), which was issued in December 2003, requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support; (ii) has a group of equity owners that are unable to make significant decisions about its activities; or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

La-Z-Boy Furniture Galleries® stores that are not owned by us are owned by over 120 independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased through approved La-Z-Boy vendors. In some cases, we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support. however, there are certain independent dealers that we have determined do not have sufficient equity. Based on the new criteria for consolidation of VIEs, we have determined that several dealers are VIEs of which, under FIN 46, we are deemed the primary beneficiary and, accordingly, have included them in our consolidated financial statements as of April 24, 2004. Additionally, there are certain independent dealers that qualify as VIEs; however, we are not the primary beneficiary. Our interest in these dealers is comprised of accounts and notes receivable of $15.0 million.

In prior years, we have evaluated the collectibility of our trade accounts receivable from our independent dealers and we have provided an appropriate reserve relating to the collectibility of our receivables with these dealers of the contingent payout under any guarantees. The following table shows the impact of this new standard on our consolidated balance sheet. The changes reflected in the table include the elimination of related payables and receivables as well as the profit in inventory. The shareholders' equity change reflects the cumulative effect of the accounting change. The cumulative effect charge has been reduced by the allowance for doubtful accounts related to the consolidated dealers.

The following table summarizes the balance sheet effect of consolidating the VIEs that we are the primary beneficiary of as of April 24, 2004:

(Amounts in thousands)	VIEs	Consolidated
Assets		
Cash and cash equivalents	$ 3,944	$ 33,882
Accounts receivable, net	(21,826)*	299,801
Inventories, net	12,721	250,568
Deferred income taxes	5,101	37,969
Other current assets	1,951	31,454
Total current assets	1,891	653,674
Property, plant and equipment, net	7,264	212,739
Intangibles	7,714	96,005
Other long-term assets	(12,484)*	85,078
Total assets	$ 4,385	$1,047,496
Liabilities and shareholders' equity		
Short-term borrowings	$ —	$ 37,219
Current portion of long-term debt and capital leases	255	5,344
Accounts payable	758	93,298
Other current liabilities	4,190	147,460
Total current liabilities	5,203	283,321
Long-term debt and capital leases	7,211	181,807
Deferred income taxes	—	20,219
Other long-term liabilities	295	39,821
Shareholders' equity (deficit)	(8,324)	522,328
Total liabilities and shareholders' equity	$ 4,385	$1,047,496

* Reflects the elimination of intercompany accounts and notes receivable.

Consolidated Tax Return

1.185

GENERAL ELECTRIC COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Provision for Income Taxes

(In millions)	2004	2003	2002
GE			
Current tax expense	$ 2,148	$2,468	$ 2,833
Deferred tax expense (benefit) from temporary differences	(175)	389	1,004
	1,973	2,857	3,837
GECS			
Current tax expense (benefit)	3,067	720	(1,488)
Deferred tax expense (benefit) from temporary differences	(1,527)	738	1,409
	1,540	1,458	(79)
Consolidated			
Current tax expense	5,215	3,188	1,345
Deferred tax expense (benefit) from temporary differences	(1,702)	1,127	2,413
Total	$ 3,513	$4,315	$ 3,758

GE and GECS file a consolidated U.S. federal income tax return. The GECS provision for current tax expense includes its effect on the consolidated return.

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Reconciliation of U.S. Federal Statutory Income Tax Rate to Actual Income Tax Rate

	Consolidated			GE			GECS		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:									
Inclusion of after-tax earnings of GECS in before-tax earnings of GE	—	—	—	(15.4)	(14.7)	(8.5)	—	—	—
Tax-exempt income	(1.0)	(1.1)	(1.2)	—	—	—	(2.0)	(2.4)	(5.1)
Tax on global activities including exports	(12.4)	(9.0)	(10.6)	(5.8)	(4.3)	(5.2)	(14.6)	(10.8)	(22.5)
IRS settlements of Lockheed Martin tax-free exchange/Puerto Rico subsidiary loss	(3.4)	—	—	(3.7)	—	—	—	—	—
All other—net	(0.7)	(3.2)	(3.3)	0.5	(0.5)	(1.1)	(2.5)	(6.0)	(9.1)
	(17.5)	(13.3)	(15.1)	(24.4)	(19.5)	(14.8)	(19.1)	(19.2)	(36.7)
Actual income tax rate	17.5%	21.7%	19.9%	10.6%	15.5%	20.2%	15.9%	15.8%	(1.7)%

Tax Sharing Agreement

1.186

XO COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Income Taxes

XO was a member of the affiliated group of corporations controlled by Mr. Icahn in filing a consolidated federal income tax return from January 2003 through January 2004, when Mr. Icahn's ownership percentage fell below the amount required by the Internal Revenue Code for the filing of consolidated returns. As such, in January 2004, XO deconsolidated with Starfire Holding Corporation ("Starfire"), the Parent entity of the affiliated group of corporations controlled by Mr. Icahn. XO had entered into a Tax Allocation Agreement with Starfire in January 2003 which provides that while XO files on a consolidated basis with Starfire, Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have had if it were to file as a group separate and apart from Starfire. Upon deconsolidation, the Tax Allocation Agreement generally provides that Starfire will reimburse' XO each year going forward for the excess of XO's actual income tax expense over the income tax that XO would have owed if net operating losses or other tax attributes used in prior periods by the Starfire consolidated group were still available to XO. XO's net operating loss carryforward has been reduced by the amount used by Starfire in 2003. No amount has been recorded for the potential reimbursements from Starfire under the Tax Allocation Agreement.

INFLATION ACCOUNTING

1.187 Effective for financial reports issued after December 2, 1986, SFAS No. 89, *Financial Reporting and Changing Prices*, states that companies previously required to disclose current cost information are no longer required to disclose such information.

1.188 Many of the survey companies include comments about inflation in Management's Discussion and Analysis of Financial Condition and Results of Operations. Examples of such comments follow.

1.189

D. R. HORTON, INC. (SEP)

INFLATION

We and the homebuilding industry in general may be adversely affected during periods of high inflation, primarily because of higher land, financing, labor and material construction costs. In addition, higher mortgage interest rates can significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass through to our customers any increases in our costs through increased sales prices and, to date, inflation has not had a material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

1.190

OXFORD INDUSTRIES, INC. (MAY)

INFLATION RISK

While the consumer price index has consistently indicated deflation in apparel prices from May 1998 through May 2003, this trend appears to be moderating within the last few months. While this deflationary trend has not affected the Tommy Bahama products, it has impacted our other businesses as evidenced by the declining average selling price per unit. Inflation/deflation risks are managed by each business unit through selective price increases when possible, productivity improvements and cost containment initiatives.

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

	2004	2003	2002	2001
Balance Sheet	576	574	574	573
Statement of Financial Position	23	24	24	25
Statement of Financial Condition	1	2	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 2004) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (7 companies in 2004).

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

	2004	2003	2002	2001
Report form	504	506	507	494
Account form	96	94	92	105
Financial position form	—	—	1	1
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

2.07

FOOT LOCKER, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain balances in prior fiscal years have been reclassified to conform to the presentation adopted in the current year.

The Company reclassified short-term investments on its Consolidated Balance Sheets in 2003 and on its 2003 and 2002 Statements of Cash Flows, which were previously presented as cash and cash equivalents. The amounts reclassified totaled $258 million and $152 million in 2003 and 2002, respectively. The purchases and sales related to the investments held in each of the three years ended January 29, 2005 have been presented on the Consolidated Statements of Cash Flows in the investing activities section.

The Company receives allowances from landlords to improve tenant locations. Historically, the Company has recorded tenant allowances as a reduction to the cost of the leasehold improvements and amortized the credits through amortization expense over the term of the lease period, which was not in accordance with U.S. generally accepted accounting principles. The Company corrected its accounting during the fourth quarter of 2004, by reclassifying those amounts received in past years from property and equipment to the deferred rent liability on the Consolidated Balance Sheets. Balances reclassified from property and equipment to the straight-line liability, which is included in other liabilities, was $22 million in 2004 and $24 million in 2003. The Company also reclassified amounts on the Consolidated Statements of Operations to reflect an increase in amortization expense and a decrease in occupancy costs, a component of costs of sales, in each of the respective years. Reclassified in the income statement was $5 million in 2004 and in 2003 and $4 million in 2002. There was no change to net income for the years presented. The effect on the Consolidated Statements of Cash Flows was not significant for the years ended January 31, 2004 and February 1, 2003 and therefore have not been reclassified.

2.08

VULCAN MATERIALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassification

Prior-year amounts for medium-term investments have been reclassified from cash and cash equivalents to present them in accordance with their contractual maturities, which are in excess of three months. This reclassification resulted in the reduction of cash and cash equivalents and an offsetting increase in medium-term investments in the amounts of $179,210,000 in 2004, $273,894,000 in 2003 and $43,720,000 in 2002. This reclassification had no impact on our Consolidated Statements of Earnings or Consolidated Statements of Shareholders' Equity.

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. 459 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

	2004	2003	2002	2001
Cash	29	36	35	35
Cash and cash equivalents	515	505	501	496
Cash and equivalents	37	34	32	32
Cash includes certificates of deposit or time deposits	2	1	2	4
Cash combined with marketable securities	14	21	25	27
No amount for cash	3	3	5	6
Total Companies	**600**	**600**	**600**	**600**

2.12

THE CLOROX COMPANY (JUN)

(In millions)	2004	2003
Current assets		
Cash and cash equivalents	$ 232	$172
Receivables, net	460	463
Inventories	301	264
Other current assets	45	46
Assets held for sale	5	6
Total current assets	$1,043	$951

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

11 (In Part): Fair Value of Financial Instruments

The carrying values of cash, short-term investments, accounts and notes receivable, accounts payable and other derivative instruments approximate their fair values at June 30, 2004 and 2003. The Company has used market information for similar instruments and applied judgment in estimating fair values. See Note 10 for fair values of notes and loans payable and long-term debt.

2.13

NEWMARKET CORPORATION (DEC)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 28,778	$ 33,367
Restricted cash	1,706	1,903
Trade and other accounts receivable, net	158,423	132,542
Receivable—TEL marketing agreements services	3,298	2,456
Inventories	157,789	124,428
Deferred income taxes	7,874	11,296
Prepaid expenses	2,387	3,810
Total current assets	$360,255	$309,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands)

6. Cash and Cash Equivalents

	2004	2003
Cash and time deposits	$28,633	$23,597
Short-term securities	145	9,770
	$28,778	$33,367

The maturity of time deposits is less than 90 days. Our short-term securities are generally government obligations and commercial paper, which mature in less than 90 days. We state these securities at cost plus accrued income, which approximates market value. Throughout the year, we have cash balances in excess of federally insured amounts on deposit with various financial institutions.

We also had restricted cash of $1.7 million at December 31, 2004 and $1.9 million at December 31, 2003. Of these restricted funds at December 31, 2004, $1.1 million was cash received from Metropolitan Life Insurance Company (Metropolitan) in 2003. These funds amounted to $1.2 million at December 31, 2003. We also had $200 thousand of similar funds at December 31, 2003, which had been received from the demutualization of Metropolitan in 2000. The 2000 funds from Metropolitan were used to reduce the employee portion of retiree health benefit costs and had been used at December 31, 2004. The 2003 funds from Metropolitan are also being used for employee benefit purposes. The remaining $600 thousand of restricted cash at December 31, 2004 represents funds related to the issuance of a European bank guarantee. This guarantee amounted to $500 thousand at December 31, 2003.

At both December 31, 2004 and December 31, 2003, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents transactions that have not cleared the bank accounts at the end of the reporting period. We transfer cash on an as-needed basis to fund these items as they clear the bank in subsequent periods.

17 (In Part): Financial Instruments

Fair Value

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

- *Cash and Cash Equivalents*—The carrying value approximates fair value.
- *Restricted Cash*—The carrying value approximates fair value.
- *Investments in Marketable Securities*—The carrying value approximates the fair value.
- *Long-Term Debt*—We estimate the fair value of our long-term debt based on current rates available to us for debt of the same remaining duration.
- *Foreign Currency Forward Contracts*—We record foreign currency forward contracts at fair value in our consolidated balance sheet. The fair value is based on published forward rates. We include the unrealized gains and losses, net of tax, as a component of shareholders' equity in accumulated other comprehensive loss.

The estimated fair values of our financial instruments are:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 28,778	$ 28,778	$ 33,367	$ 33,367
Restricted cash	$ 1,706	$ 1,706	$ 1,903	$ 1,903
Investments in marketable securities	$ 2,549	$ 2,549	$ 4,440	$ 4,440
Long-term debt, including current maturities	$(184,438)	$(179,289)	$(208,817)	$(203,591)
Foreign currency forward contracts liability	$ (1,514)	$ (1,514)	$ —	$ —

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. 247 survey companies made 258 fair value disclosures. 123 of those disclosures used market or broker quotes of the investments in debt and equity securities to determine fair value. 16 of those disclosures estimated fair value using other valuation methods. 140 disclosures presented carrying amounts which approximated fair value of marketable securities. In addition there were 78 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. 170 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			
	2004	**2003**	**2002**	**2001**
Market/fair value	190	175	168	163
Cost	52	48	54	52
Lower of cost or market	—	—	1	2

Available-for-Sale Securities

2.23

CORNING INCORPORATED (DEC)

(In millions)	2004	2003
Current assets:		
Cash and cash equivalents	$1,009	$ 688
Short-term investments, at fair value	872	578
Total cash, cash equivalents and short-term investments	1,881	1,266
Trade accounts receivable, net of doubtful accounts and allowances—$30 and $38	585	525
Inventories	535	467
Deferred income taxes	92	242
Other current assets	188	194
Total current assets	$3,281	$2,694

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Short-Term Investments

Our short-term investments consist of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities include U.S. treasury notes. state and municipal bonds, asset-backed securities, auction rate securities, corporate bonds, commercial paper and certificates of deposit. These investments are on deposit with a major financial institution. Unrealized gains and losses, net of tax, are computed on the first-in first-out basis and are reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity until realized.

4. Short-Term Investments

The following is a summary of the fair value of available-for-sale securities:

(In millions)	2004	2003
Bonds, notes and other securities		
U.S. government and agencies	$ 85	$ 88
States and municipalities	216	226
Asset-backed securities	245	93
Commercial paper	20	25
Other debt securities	306	146
Total short-term investments	$872	$578

Gross unrealized gains and losses were insignificant at December 31, 2004 and 2003.

The following table summarizes the contractual maturities of available-for-sale securities at December 31, 2004:

(In millions)	
Less than one year	$110
Due in 1–2 years	118
Due in 2–5 years	246
Due after 5 years	398
Total	$872

Proceeds from sales and maturities of short-term investments totaled $1.4 billion, $2.6 billion and $2.5 billion in 2004, 2003 and 2002, respectively. The gross realized gains related to sales of short-term investments were insignificant in 2004 and 2003 and $10 million in 2002. The gross realized losses related to sales of short-term investments were insignificant in 2004 and 2003 and $8 million in 2002.

2.24

WELLPOINT, INC. (DEC)

(In millions)	2004	2003
Current assets:		
Investments available-for-sale, at fair value	$13,586.9	$6,849.0
Cash and cash equivalents	1,457.2	464.5
Premium and self-funded receivables	1,574.6	690.3
Other receivables	876.4	325.7
Securities lending collateral	658.5	—
Deferred fax assets, net	434.0	—
Other current assets	769.9	445.6
Total current assets	$19,357.5	$8,775.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Investments

All current fixed maturity and equity securities are classified as "available-for-sale" and are reported at fair value. The Company has determined its investment securities are available to support current operations and, accordingly, has classified such investment securities as current assets without regard for contractual maturities. The unrealized gains or losses on these securities are included in accumulated other comprehensive income as a separate component of shareholders' equity unless the decline in value is deemed to be other-than-temporary, in which case securities are written down to fair value and the loss is charged to income. The Company evaluates its investment securities for other-than-temporary declines based on quantitative and qualitative factors.

Long-term investments consist primarily of restricted assets, investments on deposit with regulatory agencies and certain equity and other investments. The Company classifies investments used to satisfy contractual, regulatory or other requirements as long-term investments, without regard to contractual maturity dates. Investments in certain restricted assets included in rabbi trusts are accounted for as trading securities and reported at fair value. Long-term investments used for other contractual obligations and investments on deposit with regulatory agencies are considered available-for-sale and reported at fair value. The Company's investments in limited partnerships and other non-consolidated investments are generally accounted for using the equity method.

The Company participates in securities lending programs whereby marketable securities in its investment portfolio are transferred to independent brokers or dealers based on, among other things, their creditworthiness in exchange for collateral initially equal to at least 102% of the value of the securities on loan and is thereafter maintained at a minimum of 100% of the market value of the securities loaned. The market value of the securities on loan to each borrower is monitored daily and the borrower is required to deliver additional collateral if the market value of the collateral falls below 100% of the market value of the securities on loan. Under the guidance provided in FAS 140. *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, the Company recognizes the collateral as an asset under "securtities lending collateral" on its balance sheet and the Company records a corresponding liability for the obligation to return the collateral to the borrower under "securities lending payable."

Realized gains or losses, determined by specific identification of investments sold or impaired, are included in income.

5 (In Part): Investments

A summary of available-for-sale investments is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
December 31, 2004				
Fixed maturity securities:				
United States Government securities	$ 1,504.7	$ 9.2	$ (2.4)	$ 1,511.5
Obligations of states and political subdivisions	2,434.9	14.3	(11.7)	2,437.5
Corporate securities	5,328.5	101.5	(9.1)	5,420.9
Mortgage-backed securities	3,018.6	29.8	(4.6)	3,043.8
Total fixed maturity securities	12,286.7	154.8	(27.8)	12,413.7
Equity securities	1,089.3	87.2	(3.3)	1,173.2
	$13,376.0	$242.0	$(31.1)	$13,586.9
December 31, 2003				
Fixed maturity securities:				
United States Government Securities	$ 1,182.0	$ 24.3	$ (2.0)	$ 1,204.3
Obligations of states and political subdivisions	13.2	0.3	—	13.5
Corporate securities	2,955.3	127.0	(5.0)	3,077.3
Mortgage-backed securities	2,319.4	47.4	(6.6)	2,360.2
Total fixed maturity securities	6,469.9	199.0	(13.6)	6,655.3
Equity securities	167.5	26.2	—	193.7
	$ 6,637.4	$225.2	$(13.6)	$ 6,849.0

The amortized cost and fair value of fixed maturity securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities may be less than contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 357.3	$ 358.1
Due after one year through five years	3,962.1	3,980.8
Due after five years through ten years	3,681.3	3,741.3
Due after ten years	1,267.4	1,289.7
	9,268.1	9,369.9
Mortgage-backed securities	3,018.6	3,043.8
	$12,286.7	$12,413.7

Proceeds from sales of fixed maturity and equity securities during 2004, 2003 and 2002 were $7,227.3, $4,115.0 and $4,535.9, respectively. Gross gains of $95.4, $60.4 and $72.7 and gross losses of $51.4, $18.2 and $39.2 were realized on those sales in 2004, 2003 and 2002, respectively.

The Company recorded charges for other-than-temporary impairment of securities of $0.8, $24.4 and $3.1, respectively, for 2004, 2003 and 2002. Charges for other-than-temporary impairment of securities are reported with net realized gains on investments.

A summary of available-for-sale investments with unrealized losses as of December 31, 2004 and 2003 along with the related fair value, aggregated by the length of time that investments have been in a continuous unrealized loss position, is as follows:

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2004						
Fixed maturity securities:						
United States Government securities	$ 809.2	$ 2.4	$ —	$ —	$ 809.2	$ 2.4
Obligations of states and political subdivisions	902.2	10.6	56.3	1.1	958.5	11.7
Corporate securities	1,363.1	8.4	26.5	0.7	1,389.6	9.1
Mortgage-backed securities	750.2	3.6	53.4	1.0	803.6	4.6
Total fixed maturity securities	3,824.7	25.0	136.2	2.8	3,960.9	27.8
Equity securities	82.5	3.3	—	—	82.5	3.3
	$3.907.2	$28.3	$136.2	$2.8	$4,043.4	$31.1
December 31, 2003						
Fixed maturity securities:						
United States Government securities	$ 172.4	$ 1.8	$ 3.6	$0.2	$ 176.0	$ 2.0
Obligations of states and political subdivisions	—	—	—	—	—	—
Corporate securities	404.1	5.0	—	—	404.1	5.0
Mortgage-backed securities	562.9	6.6	—	—	562.9	6.6
Total fixed maturity securities	1,139.4	13.4	3.6	0.2	1,143.0	13.6
Equity securities	—	—	—	—	—	—
	$1,139.4	$13.4	$ 3.6	$0.2	$1,143.0	$13.6

The Company's fixed maturity investment portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Unrealized losses reported above were generally caused by the effect of a rising interest rate environment on certain securities with stated interest rates currently below market rates. The Company has the ability and intent to hold these securities until their full cost can be recovered. Therefore, the Company does not belive the unrealized losses represent an other-than-temporary impairment as of December 31, 2004.

8 (In Part): Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Investments, Available for Sale, at Fair Value

The carrying amount approximates fair value, based on quoted market prices for the same or similar instruments.

Considerable judgment is required to develop estimates of fair value for financial instruments. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one time, current market exchange of all of the financial instruments.

The carrying values and estimated fair values of the Company's financial instruments at December 31 are as follows:

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 1,457.2	$ 1,457.2	$ 464.5	$ 464.5
Investments available-for-sale	13,586.9	13,586.9	6,849.0	6,849.0
Long-term investments	748.1	748.1	164.7	164.7
Liabilities:				
Long-term debt:				
Commercial paper	793.2	793.2	—	—
Equity Security Units	—	—	224.3	405.9
Other notes	3,483.5	3,654.1	1,438.9	1,724.5
Interest rate swap	0.8	0.8	—	—

Held-to-Maturity Securities

2.25

CDW CORPORATION (DEC)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 148,804	$ 222,425
Marketable securities	329,393	175,210
Accounts receivable, net of allowance for doubtful accounts of $9,890 and $10,057, respectively	580,035	444,000
Merchandise inventory	213,222	183,890
Miscellaneous receivables	24,364	28,517
Deferred income taxes	13,718	12,147
Prepaid expenses	6,901	3,994
Total current assets	$1,316,437	$1,070,183

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Marketable Securities

We classify securities with a stated maturity, which we intend to hold to maturity, as "held-to-maturity," and record such securities at amortized cost. Securities which do not have stated maturities or which we do not intend to hold to maturity are classified as "available-for-sale" and recorded at fair value, with unrealized holding gains or losses recorded as a separate component of Shareholders' Equity. We do not invest in trading securities. All securities are accounted for on a specific identification basis.

Our marketable securities are concentrated in securities of the U.S. Government, U.S. Government agencies and municipal bonds. Such investments are supported by the financial stability and credit standing of the U.S. Government or applicable U.S. Government agency or municipality.

4. Marketable Securities

The amortized cost and estimated fair values of our investments in marketable securities at December 31, 2004 and 2003 were (in thousands):

Security Type	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Amortized Cost
December 31, 2004				
Available-for-sale:				
Municipal bonds	$165,688	$ —	$ (237)	$165,925
Corporate fixed income securities	44,600	—	—	44,600
Total available-for-sale	210,288	—	(237)	210,525
Held-to-maturity:				
U.S. Government and Government agency securities	236,938	—	(1,541)	238,479
Corporate fixed income securities	6,003	—	(49)	6,052
Total held-to-maturity	242,941	—	(1,590)	244,531
Total marketable securities	$453,229	$ —	$(1,827)	$455,056
December 31, 2003				
Available-for-sale:				
Municipal bonds	$112,600	$ —	$ —	$112,600
Corporate fixed income securities	24,600	—	—	24,600
Total available-for-sale	137,200	—	—	137,200
Held-to-maturity:				
U.S. Government and Government agency securities	195,507	215	—	195,292
Municipal securities	1,005	—	(1)	1,006
Corporate fixed income securities	6,434	—	(3)	6,437
Total held-to-maturity	202,946	215	(4)	202,735
Total marketable securities	$340,146	$215	$ (4)	$339,935

Estimated fair values of marketable securities are based on quoted market prices. The amortized cost and estimated fair value of our investments in marketable securities at December 31, 2004 and 2003 by contractual maturity were (in thousands):

	Estimated Fair Value	Amortized Cost
December 31, 2004		
Due in one year or less	$328,613	$329,393
Due in greater than one year	124,616	125,663
Total investments in marketable securities	$453,229	$455,056
December 31, 2003		
Due in one year or less	$175,316	$175,210
Due in greater than one year	164,830	164,725
Total investments in marketable securities	$340,146	$339,935

As of December 31, 2004 all of the marketable securities that are due after one year have maturity dates prior to December 1, 2006.

The gross unrealized holding gains and losses on available-for-sale securities are recorded as accumulated other comprehensive income, which is reflected as a separate component of shareholders' equity. The gross realized gains and losses on marketable securities that are included in other expense in the Consolidated Statements of Income are not material.

2.26

CSP INC. (SEP)

(Amounts in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 2,880	$ 3,129
Short-term investments	10,015	7,365
Accounts receivable, net of allowance for doubtful accounts of $195 in 2004 and $328 in 2003	7,292	5,429
Inventories	3,611	2,034
Refundable income taxes	12	1,095
Deferred income taxes	—	560
Other current assets	866	920
Total current assets	$24,676	$20,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investments

The Company classifies its investments at the time of purchase as either held-to-maturity or available-for-sale. Held-to-maturity securities are those investments that the Company has the ability and intent to hold until maturity.

Held-to-maturity securities are recorded at cost, adjusted for the amortization of premiums and discounts which approximates market value. Available-for-sale securities are recorded at fair value. Unrealized gains and losses net of the related tax effect, if any, on available-for-sale securities are reported in accumulated other comprehensive income, a component of stockholders' equity, until realized. The estimated fair market values of investments are based on quoted market prices as of the end of the reporting period.

Interest income is accrued as earned. Dividend income is recognized as income on the date the stock trades "ex-dividend." The cost of marketable securities sold is determined by the specific identification method and realized gains or losses are reflected in income.

3 (In Part): Investments

At September 30, 2004 and 2003, investments consisted of the following:

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Fair Value
September 30, 2004			
Marketable equity securities	$ 301	$29	$ 330
Bonds and municipal revenue notes	2,595	—	2,595
Money market funds and commercial paper	7,139	—	7,139
U.S. treasury bills	125	—	125
Total	$10,160	$29	$10,189
September 30, 2003			
Marketable equity securities	$ 268	$12	$ 280
Bonds and municipal revenue notes	2,847	—	2,847
Money market funds and commercial paper	4,363	—	4,363
U.S. treasury bills	125	—	125
Total	$ 7,603	$12	$ 7,615

(Amounts in thousands)	Short-Term	Long-Term	Total
September 30, 2004			
Held-to-maturity	$ 9,685	$174	$ 9,859
Available-for-sale	330	—	330
	$10,015	$174	$10,189
September 30, 2003			
Held-to-maturity	$ 7,085	$250	$ 7,335
Available-for-sale	280	—	280
	$ 7,365	$250	$ 7,615

At September 30, 2004, the cost and estimated fair values of short-term and long-term marketable debt securities (excluding cash equivalents) by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Less than one year	$ 9,986	$10,015
Mature in 1–2 years	50	50
Mature in 2–5 years	124	124
Mature after 5 years	—	—
Total	$10,160	$10,189

Trading Securities

2.27

THE FAIRCHILD CORPORATION (SEP)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 12,849	$ 6,601
Short-term investments	16,595	45,763
Accounts receivable-trade, less allowances of $2,950 and $1,433	28,834	11,569
Inventories:		
Finished goods	95,804	23,649
Work-in-process	1,439	859
Raw materials	616	536
	97,859	25,044
Net current assets of discontinued operations	—	52
Prepaid expenses and other current assets	8,774	4,057
Total current assets	$164,911	$93,086

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Investments

Management determines the appropriate classification of our investments at the time of acquisition and reevaluates such determination at each balance sheet date. Trading securities are carried at fair value, with unrealized holding gains and losses included in investment income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses, net of tax, reported as a separate component of stockholders' equity. Investments in equity securities and limited partnerships that do not have readily determinable fair values are stated at cost and are categorized as other investments. Realized gains and losses are determined using the specific identification method based on the trade date of a transaction. Interest on government and corporate obligations are accrued at the balance sheet date. Investments in companies in which ownership interests range from 20 to 50 percent are accounted for using the equity method.

4 (In Part): Cash Equivalents and Investments

Cash equivalents and investments at September 30, 2004 consist primarily of investments in United States government securities, investment grade corporate bonds, and equity securities which are recorded at market value. Restricted cash equivalent investments are classified as short-term or long-term investments depending upon the length of the restriction period. Investments in common stock of public corporations are recorded at fair market value and classified as trading securities or available-for-sale securities. Other short-term investments and long-term investments do not have readily determinable fair values and consist primarily of investments in preferred and common shares of private companies and limited partnerships. A summary of the cash equivalents and investments held by us follows:

	Aggregate		Aggregate	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Short-term investments:				
U.S. government securities—restricted	$ 1,947	$ 1,947	$ 7,549	$ 7,549
Money market funds—restricted	4,227	4,227	—	—
Trading securities—corporate bonds	6,978	6,978	37,669	37,186
Trading securities—equity securities	3,443	3,607	399	609
Available-for-sale equity securities	—	—	91	199
Other investments	—	—	55	55
Total short-term investments	$16,595	$16,759	$45,763	$45,598

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On September 30, 2004, we had gross unrealized holding gains from available-for-sale securities of $2,129 and gross unrealized losses from available-for-sale securities of $352. On September 30, 2003, we had gross unrealized holding gains from available-for-sale securities of $894 and gross unrealized losses from available-for-sale securities of $153. We use the specific identification method to determine the gross realized gains (losses) from sales of available-for-sale securities. Investment income (loss) is summarized as follows:

	Year Ended	3 Month Transition Period Ended	Years Ended	
	9/30/04	9/30/03	6/30/03	6/30/02
Gross realized gain from sales of available-for-sale securities	$ 277	$ —	$ 633	$ 30
Gross realized loss from sales of trading securities	—	—	—	(811)
Change in unrealized holding gain (loss) from trading securities	(479)	19	516	486
Gross realized loss from impairments	—	—	(2,395)	(2,296)
Dividend income	4,694	1,011	1,226	1,599
	$4,492	$1,030	$ (20)	$ (992)

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. 344 survey companies made 347 fair value disclosures. 323 disclosures presented carrying amounts which approximated fair value of trade receivables.

2.29 Effective for fiscal years beginning after December 15, 2001, Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, issued by Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA) requires that loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, such receivables held for sale should be a separate balance-sheet category. Major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes to the financial statements. The allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premium and discounts, and any net unamortized deferred fees and costs, should be disclosed in the financial statements.

2.30 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

	2004	2003	2002	2001
Trade Receivable Captions:				
Accounts receivable	297	283	289	285
Receivables	122	137	127	134
Trade accounts receivable	104	112	117	117
Accounts and notes receivable	56	52	51	51
No caption for current receivables	21	16	16	13
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Receivables Other Than Trade Receivables:				
Tax refund claims	61	67	69	50
Investees/affiliates	45	41	45	39
Contracts	39	36	35	35
Finance	30	24	26	26
Retained interest in sold receivables	24	25	29	14
Insurance claims	12	15	6	7
Installment notes or accounts	12	8	8	5
Asset disposals	11	3	—	5
Employees	5	2	4	3

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

2.32

AETNA INC. (DEC)

(Millions)	2004	2003
Current assets:		
Cash and cash equivalents	$ 1,396.0	$ 1,433.4
Investment securities	14,242.6	14,990.5
Other investments	57.7	103.1
Premiums receivable, net	256.1	318.4
Other receivables, net	314.0	396.0
Accrued investment income	198.6	221.5
Collateral received under securities loan agreements	1,173.8	827.4
Loaned securities	1,150.1	810.6
Income taxes receivable	226.8	—
Deferred income taxes	196.0	217.6
Other current assets	304.5	238.3
Total current assets	$19,516.2	$19,556.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Income Taxes

In 2004, the Service completed the audit of the Company's predecessor's ("former Aetna's") 1984 through 2000 (prior to December 13, 2000) and the Company's 2000 (subsequent to December 13, 2000) through 2001 tax returns. In conjunction with completion of the audit, the Company was notified that the Congressional Joint Committee on Taxation (the "Joint Committee") approved a tax refund of approximately $740 million, including interest, relating to businesses that were sold in the 1990s by former Aetna. As a result of the resolution of these audits, the Company recorded favorable adjustments of approximately $290 million to existing tax liabilities for a total of $1.0 billion of income from discontinued operations in 2004 (refer to Note 22).

22 (In Part): Discontinued Operations

On July 8, 2004, the Company was notified that the Congressional Joint Committee on Taxation (the "Joint Committee") approved a tax refund of approximately $740 million, including interest, relating to businesses that were sold in the 1990s by the Company's predecessor (former Aetna). The tax refund was recorded as income from discontinued operations in 2004. The Joint Committee approval also finalizes the Internal Revenue Service's (the "Service") audits of the Company's tax returns for the years 1991 through 2001. In 2004, the Company also finalized the Service's audits of the Company's tax returns for the years 1984 through 1990. As a result of the resolution of these audits, the Company recorded favorable adjustments of approximately $290 million to existing tax liabilities in 2004 as income from discontinued operations, for a total of $1,030 million of income. The Company received approximately $666 million of the tax refund during 2004 and expects to receive the remaining refund in 2005.

2.33

LUCENT TECHNOLOGIES INC. (SEP)

(In millions)	2004	2003
Cash and cash equivalents	$3,379	$3,821
Marketable securities	858	686
Receivables	1,359	1,511
Inventories	822	632
Other current assets	1,813	1,213
Total current assets	$8,231	$7,863

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Supplementary Financial Information

Supplementary Balance Sheet Information (In Part)

(In millions)	2004	2003
Income tax receivables, including related interest	$ 868	$ 134
Non-trade receivables	360	198
Deferred income taxes	197	146
Prepaid expenses	187	217
Restricted cash	148	140
Forward contracts receivable	24	322
Contracts in process	—	33
Other	29	23
Other current assets	$1,813	$1,213

7 (In Part): Income Taxes

During the fourth quarter of fiscal 2003, we filed a net operating loss carryback claim related to the carryback of our fiscal year 2001 federal net operating loss to 1996, a year in which we filed our federal income tax return as part of the AT&T consolidated group. We reached a tentative agreement with the Internal Revenue Service (the "IRS") on September 1, 2004 that allowed for a tax refund of $816 million (plus statutory interest to the date of payment), subject to approval by the Congressional Joint Committee on Taxation (the "Joint Committee"). The tax benefit related to the claim was not recognized at that time or prior to that time because it was related to a complex matter and there was no assurance that the approval from the Joint Committee would be obtained. On November 8, 2004, we received written confirmation from the IRS that the Joint Committee approved our tentative agreement with the IRS and that our agreement with the IRS was final. We were required to reassess the realizability of our net operating loss carryforwards as of September 30, 2004, because the Joint Committee's final approval was received prior to the issuance of our consolidated financial statements. As a result, we recognized an $816 million income tax benefit from the reversal of valuation allowances due to the realization of deferred tax assets and interest income of $45 million during the fourth quarter of fiscal 2004.

We expect to receive the refund during fiscal 2005, following completion of the IRS's audit of our 2001 federal income tax return. The refund will be paid by the IRS to AT&T and the entire refund amount will become payable by AT&T to us under our tax sharing agreements with AT&T. We do not believe there are any other matters that would impact the refund claim.

Receivables From Affiliates

2.34

ANALOGIC CORPORATION (JUL)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$149,549	$136,806
Marketable securities at market	27,088	41,155
Accounts and notes receivable, net of allowance for doubtful accounts of $2,493 in 2004, and $4,189 in 2003	54,483	52,912
Accounts receivable from affiliates, net	1,015	963
Inventories	65,952	69,548
Costs related to deferred revenue	12,723	15,227
Refundable and deferred income taxes	10,861	13,223
Other current assets	6,450	6,069
Total current assets	$328,121	$335,903

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

8 (In Part): Investment in and Advances to Affiliated Companies

The Company has a 44.6% equity ownership interest in SAHCO located in The People's Republic of China. During fiscal 2004, the Company recorded $584 as its share of losses in SAHCO, as compared to $1,125 in fiscal 2003. The carrying value of this investment was $256 at July 31, 2004, and $840 at July 31, 2003. At July 31, 2004 and 2003, the net receivables from this affiliate were $1,015 and $963, respectively. Sales to SAHCO for fiscal 2004, 2003 and 2002 were approximately $6,695, $4,257 and $4,037, respectively.

Contracts

2.35

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	2004	2003
Current assets		
Cash and cash equivalents	$1,230	$ 294
Accounts receivable, net	3,546	3,226
Inventoried costs, net	1,061	1,167
Deferred income taxes	777	770
Prepaid expenses and other current assets	293	281
Total current assets	$6,907	$5,738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Accounts Receivable, Net

Unbilled amounts represent sales for which billings have not been presented to customers at year-end, including differences between actual and estimated overhead and margin rates. These amounts are usually billed and collected within one year. Progress payments are received on a number of fixed-price contracts accounted for using the cost-to-cost measure of the percentage-of-completion method.

Accounts receivable at December 31, 2004, are expected to be collected in 2005 except for approximately $114 million due in 2006 and $41 million due in 2007 and later.

Allowances for doubtful amounts mainly represent estimates of overhead type costs which may not be successfully negotiated and collected.

Accounts receivable were composed of the following:

($ in millions)	2004	2003
Due from U.S. Government, long-term contracts		
Current accounts		
Billed	$ 1,210	$ 1,088
Unbilled	25,752	20,808
Progress payments received	(24,572)	(19,752)
	2,390	2,144
Due from other customers, long-term contracts		
Current accounts		
Billed	221	170
Unbilled	2,688	1,783
Progress payments received	(2,144)	(1,366)
	765	587
Total due, long-term contracts	3,155	2,731
Trade and other accounts receivable		
Due from U.S. Government	410	465
Due from other customers	287	560
Progress payments received	(38)	(282)
Total due, trade and other	659	743
	3,814	3,474
Allowances for doubtful amounts	(268)	(248)
Total accounts receivable, net	$ 3,546	$ 3,226

Finance Receivables

2.36

HEWLETT-PACKARD COMPANY (OCT)

Consolidated Balance Sheets

(In millions)	2004	2003
Current assets:		
Cash and cash equivalents	$12,663	$14,188
Short-term investments	311	403
Accounts receivable	10,226	8,921
Financing receivables	2,945	3,026
Inventory	7,071	6,065
Other current assets	9,685	8,351
Total current assets	$42,901	$40,954

Consolidated Statements of Operations

(In millions)	2004	2003	2002
Net revenue:			
Products	$64,127	$58,826	$45,878
Services	15,389	13,768	10,390
Financing income	389	467	320
Total net revenue	79,905	73,061	56,588
Costs and expenses:			
Cost of products	48,359	43,619	34,127
Cost of services	11,791	10,031	7,477
Financing interest	190	208	189
Research and development	3,506	3,651	3,368
Selling, general and administrative	11,024	11,012	8,763
Amortization of purchased intangible assets	603	563	402
Restructuring charges	114	800	1,780
Acquisition-related charges	54	280	701
In-process research and development charges	37	1	793
Total costs and expenses	75,678	70,165	57,600
Earnings (loss) from operations	$ 4,227	$ 2,896	$ (1,012)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (In Part)

Financing Income

Financing income is produced by sales-type and direct-financing leases and is recognized on the accrual basis under the effective interest method. Certain financing receivables for which HP recorded specific reserves are placed on nonaccrual status. Nonaccrual assets are those receivables with specific reserves and other delinquent accounts for which it is likely that HP will be unable to collect all amounts due according to the terms of the customer agreement. Income recognition is discontinued on these receivables. Financing receivables are removed from nonaccrual status when appropriate customer actions are taken to remove the accounts from delinquent status.

Note 3 (In Part): Balance Sheet Details

Balance sheet details were as follows at October 31:

Accounts and Financing Receivables

(In millions)	2004	2003
Accounts receivable	$10,512	$9,268
Allowance for doubtful accounts	(286)	(347)
	$10,226	$8,921
Financing receivables	$ 3,066	$3,145
Allowance for doubtful accounts	(121)	(119)
	$ 2,945	$3,026

HP entered into a six-year revolving agreement during the third quarter of fiscal 2004 to sell certain trade receivables without recourse. Sold receivables are collected by the third party, with the sales of receivables limited only by the outstanding maximum balance of receivables not yet collected by the third party. Trade receivables of approximately 680 million euros were sold during the last half of fiscal 2004, primarily during the fourth quarter. The implementation of this program did not have a material impact on HP's outstanding receivable balance as utilization of this program was limited to certain customer receivables that were already under an alternative prompt payment program. Fees associated with this program do not differ materially from the cash discounts offered to these customers under the alternative prompt payment program.

Note 8 (In Part): Financial Instruments

Fair Value of Other Financial Instruments

For certain of HP's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, financing receivables, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The estimated fair value of HP's short- and long-term debt was approximately $6.9 billion at October 31, 2004, compared to a carrying value of $7.1 billion at that date. The estimated fair value of the debt is based primarily on quoted market prices, as well as borrowing rates currently available to HP for bank loans with similar terms and maturities.

Note 9 (In Part): Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases resulting from the marketing of HP's and complementary third-party products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include billed receivables from operating leases. The components of net financing receivables, which are included in financing receivables and long-term financing receivables and other assets, were as follows at October 31:

(In millions)	2004	2003
Minimum lease payments receivable	$ 5,328	$ 6,010
Allowance for doubtful accounts	(213)	(210)
Unguaranteed residual value	394	446
Unearned income	(396)	(475)
Financing receivables, net	5,113	5,771
Less current portion	(2,945)	(3,026)
Amounts due after one year, net	$ 2,168	$ 2,745

Scheduled maturities of HP's minimum lease payments receivable are as follows at October 31, 2004:

(In millions)	2005	2006	2007	2008	2009	Thereafter	Total
Scheduled maturities of minimum lease payments receivable	$3,045	$1,381	$612	$194	$67	$29	$5,328

Retained Interest in Sold Receivables

2.37

UNITED STATIONERS INC. (DEC)

(Dollars in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 15,719	$ 10,307
Accounts receivable, less allowance for doubtful accounts of $10,475 in 2004 and $11,811 in 2003	178,644	195,433
Retained interest in receivables sold, less allowance for doubtful accounts of $3,728 in 2004 and $3,758 in 2003	227,807	153,722
Inventories	608,549	539,919
Other current assets	18,623	25,943
Total current assets	$1,049,342	$925,324

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Receivables Securitization Program

General

On March 28, 2003, USSC entered into a third-party receivables securitization program with JP Morgan Chase Bank, as trustee (the "Receivables Securitization Program"). Under this $225 million program, USSC sells, on a revolving basis, its eligible trade accounts receivable (except for certain excluded accounts receivable, which initially includes all accounts receivable of Lagasse and foreign operations) to USS Receivables Company, Ltd. (the "Receivables Company"). The Receivables Company, in turn, ultimately transfers the eligible trade accounts receivable to a trust. The trustee then sells investment certificates, which represent an undivided interest in the pool of accounts receivable owned by the trust, to third-party investors. Affiliates of Bank One, PNC Bank and (as of March 26, 2004) Fifth Third Bank act as funding agents.

The funding agents, or their affiliates, provide standby liquidity funding to support the sale of the accounts receivable by the Receivables Company under 364-day liquidity facilities. The Receivables Securitization Program provides for the possibility of other liquidity facilities that may be provided by other commercial banks rated at least A-1/P-1.

The Company utilizes this program to fund its cash requirements more cost effectively than under the Credit Agreement. Standby liquidity funding is committed for only 364 days and must be renewed before maturity in order for the program to continue. The program liquidity was renewed on March 26, 2004. The program contains certain covenants and requirements, including criteria relating to the quality of receivables within the pool of receivables. If the covenants or requirements were compromised, funding from the program could be restricted or suspended, or its costs could increase. In such a circumstance, or if the standby liquidity funding were not renewed, the Company could require replacement liquidity. As discussed above, the Company's Credit Agreement is an existing alternate liquidity source. The Company believes that, if so required, it also could access other liquidity sources to replace funding from the program.

Financial Statement Presentation

The Receivables Securitization Program is accounted for as a sale in accordance with FASB Statement No. 140 *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."* Trade accounts receivable sold under this Program are excluded from accounts receivable in the Consolidated Financial Statements. As of December 31, 2004, the Company sold $118.5 million of interests in trade accounts receivable, compared with $150.0 million as of December 31, 2003. Accordingly, trade accounts receivable of $118.5 million as of December 31, 2004 and $150.0 million as of December 31, 2003 are excluded from the Consolidated Financial Statements. As discussed further below, the Company retains an interest in the master trust based on funding levels determined by the Receivables Company. The Company's retained interest in the master trust is included in the Consolidated Financial Statements under the caption, "Retained interest in receivables sold, net." For further information on the Company's retained interest in the master trust, see the caption "Retained Interest" below.

The Company recognizes certain costs and/or losses related to the Receivables Securitization Program. Costs related to this program vary on a daily basis and generally are related to certain short-term interest rates. The annual interest rate on the certificates issued under the Receivables Securitization Program during 2004 ranged between 1.1% and 2.3%. In addition to the interest on the certificates, the Company pays certain bank fees related to the program. Losses recognized on the sale of accounts receivable, which represent the financial cost of funding under the program, totaled $3.1 million for 2004, compared with $3.5 million for 2003. Proceeds from the collections under this revolving agreement for 2004 and 2003 were $3.6 billion and $3.4 billion, respectively. All costs and/or losses related to the Receivables Securitization Program are included in the Consolidated Financial Statements of Income under the caption "Other Expense, net."

The Company has maintained the responsibility for servicing the sold trade accounts receivable and those transferred to the master trust. No servicing asset or liability has been recorded because the fees received for servicing the receivables approximate the related costs.

Retained Interest

The Receivables Company determines the level of funding achieved by the sale of trade accounts receivable, subject to a maximum amount. It retains a residual interest in the eligible receivables transferred to the trust, such that amounts payable in respect of such residual interest will be distributed to the Receivables Company upon payment in full of all amounts owed by the Receivables Company to the trust (and by the trust to its investors). The Company's net retained interest on $346.3 million and $303.7 million of trade receivables in the master trust as of December 31, 2004 and December 31, 2003 was $227.8 million and $153.7 million, respectively. The Company's retained interest in the master trust is included in the Consolidated Financial Statements under the caption, "Retained interest in receivables sold, net."

The Company measures the fair value of its retained interest throughout the term of the Receivables Securitization Program using a present value model incorporating the following two key economic assumptions: (1) an average collection cycle of approximately 40 days; and (2) an assumed discount rate of 5% per annum. In addition, the Company estimates and records an allowance for doubtful accounts related to the Company's retained interest. Considering the above noted economic factors and estimates of doubtful accounts, the book value of the Company's retained interest approximates fair value. A 10% and 20% adverse change in the assumed discount rate or average collection cycle would not have a material impact on the Company's financial position or results of operations. Accounts receivable sold to the master trust and written off during 2004 were not material.

Insurance Claims

2.38

NOBLE ENERGY, INC. (DEC)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$179,794	$ 62,374
Accounts receivable—trade, net	407,349	303,822
Derivative instruments	28,733	48,086
Materials and supplies inventories	12,109	11,083
Deferred taxes	13,039	7,501
Prepaid expenses and other	28,278	16,304
Probable insurance claims	65,000	
Assets held for sale		21,245
Toal current assets	$734,302	$470,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Involuntary Conversion of Assets

In September 2004, Hurricane Ivan moved through the Gulf of Mexico resulting in infrastructure damage at Main Pass 293/305/306. Costs related to clean-up and redevelopment are insured to a limit that the Company believes will allow for restoration of production. The loss of production is not covered by business interruption insurance.

The Company plans to replace the assets that were destroyed by the hurricane and expects that the costs of replacing those assets will be fully recoverable from insurance proceeds, subject to a $1.0 million deductible. The Company will adjust the total gain or loss attributable to the involuntary conversion in the period in which the contingencies related to the replacement costs and related insurance recoveries are resolved. The loss is being treated as an involuntary conversion for federal income tax purposes.

Amounts related to the involuntary conversion are as follows at December 31, 2004:

(In thousands)	
Net book value of assets impaired	$ 23,978
Increase in asset retirement obligation related to Main Pass assets	130,000
Loss on involuntary conversion of assets	153,978
Probable insurance claims	(152,978)
Net loss on involuntary conversion of assets	$ 1,000

Assets (liabilities) included on the Company's balance sheet at December 31, 2004 consist of the following:

(In thousands)	
Probable insurance claims—current	$ 65,000
Insurance recoveries received	3,146
Other assets (long-term portion of probable insurance claims)	84,832
Total expected insurance recoveries	$ 152,978
Asset retirement obligation—current	$ (65,000)
Asset retirement obligation—long-term	(65,000)
Total increase in asset retirement obligation related to Main Pass assets	$(130,000)

Note 6. Asset Retirement Obligations

The Company adopted SFAS No. 143 on January 1, 2003. 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. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying cost of the asset. The Company's asset retirement obligations consist primarily of estimated costs of dismantlement, removal, site reclamation and similar activities associated with its oil and gas properties. Upon adoption at January 1, 2003, the Company recognized as the fair value of asset retirement obligations, $99.8 million related to the United States and $10.0 million related to the North Sea. The Company also recognized a non-cash pre-tax charge of $9.0 million ($5.8 million, net of tax) as the cumulative effect of a change in accounting principle upon adoption.

Below is a reconciliation of the beginning and ending aggregate carrying amount of the Company's asset retirement obligations:

(Dollars in thousands)	2004	2003
Asset retirement obligation at beginning of period	$102,827	$ —
Initial adoption entry		109,821
Liabilities incurred as a result of Hurricane Ivan	130,000	—
Other liabilities incurred in the current period	13,016	2,556
Liabilities settled in the current period	(19,370)	(13,295)
Revisions	19,158	(5,586)
Accretion expense	9,352	9,331
Asset retirement obligation at end of period	$254,983	$102,827

Revisions to the Company's previously recorded asset retirement obligations during 2004 resulted from changes in the assumptions used to estimate the timing and amounts of the cash flows required to settle asset retirement obligations. Asset retirements incurred in 2004 for the United States include $130.0 million, which will be reimbursed by insurance, related to Hurricane Ivan damage in the Gulf of Mexico. The Company believes it has insurance coverage in an amount sufficient to make necessary repairs in order to re-establish production as a result of Hurricane Ivan. For more information, see "Note 3—Involuntary Conversion of Assets" of this Form 10-K.

The following table summarizes the pro forma net income and earnings per share, for the year ended December 31, 2002, for SFAS No. 143 had it been implemented on January 1, 2002 (in thousands, except per share amounts):

	As Reported	Pro Forma
Net income	$17,652	$8,556
Net income per share, basic	$ .31	$ .15
Net income per share, diluted	$ .31	$ .15

In addition, if the Company had applied the provisions of SFAS No. 143 as of January 1, 2002, the pro forma amount of the asset retirement obligations would have been $99.7 million.

Installment Receivables

2.39

SNAP-ON INCORPORATED (DEC)

(Amounts in millions)	2004	2003
Current assets		
Cash and cash equivalents	$ 150.0	$ 96.1
Accounts receivable—net of allowances	542.0	546.8
Inventories	341.9	351.1
Deferred income tax benefits	77.1	71.4
Prepaid expenses and other assets	81.6	66.3
Total current assets	$1,192.6	$1,131.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Accounts Receivable

Accounts receivable include trade accounts, installment and other receivables, including the current portion of dealer financing receivables. The components of Snap-on's current accounts receivable as of fiscal year-end 2004 and 2003 are as follows:

(Amounts in millions)	2004	2003
Trade accounts receivable	$487.6	$501.8
Installment receivables, net of unearned finance charges of $12.3 million and $11.4 million	51.0	55.1
Other accounts receivable	49.9	34.9
Total	588.5	591.8
Allowances for doubtful accounts	(46.5)	(45.0)
Total accounts receivable—net	$542.0	$546.8

The long-term portion of accounts receivable is classified in "Other assets" on the accompanying Consolidated Balance Sheets and is comprised of installment and other receivables, including dealer financing receivables, with payment terms that are due beyond one year. The components of Snap-on's long-term accounts receivable as of fiscal year-end 2004 and 2003 are as follows:

(Amounts in millions)	2004	2003
Installment receivables, net of unearned finance charges of $7.6 million and $9.1 million	$50.9	$41.9
Other long-term accounts receivable	18.8	19.8
Total	$69.7	$61.7

Note 11 (In Part): Financial Instruments

Fair Value of Financial Instruments (In Part)

SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments*," requires Snap-on to disclose the fair value of financial instruments for both on- and off-balance-sheet assets and liabilities for which it is practicable to estimate that value. The following methods and assumptions were used in estimating the fair value of financial instruments:

Installment Contracts

A discounted cash flow analysis was performed over the average life of a contract using a discount rate currently available to Snap-on adjusted for credit quality, cost and profit factors. As of January 1, 2005, and January 3, 2004, the fair value was approximately $117 million and $114 million, versus a book value of $101.9 million and $97.0 million.

Sale of Assets

2.40

INTERGRAPH CORPORATION (DEC)

(In thousands)	2004	2003
Cash and cash equivalents	$224,978	$216,122
Short-term investments	67,457	49,660
Accounts receivable, net	155,160	150,927
Inventories, net	22,253	15,443
Receivables from IP-related litigation	50,409	—
Other current assets	33,641	37,673
Total current assets	$553,898	$469,825

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Other Current Assets

Other current assets reflected in the Company's consolidated balance sheets consist primarily of prepaid expenses, non-trade receivables, the current portion of notes receivable from sales of various non-core businesses and assets, refundable income taxes, and the Company's net current deferred tax asset.

Note 17 (In Part): Acquisitions and Divestitures

Singapore

On November 30, 2000, the Company sold its Singapore subsidiary for approximately $2.7 million, primarily in the form of a long-term note receivable, with payment terms through September 2005, as amended in November 2003. Payments, including interest, were received in 2004, 2003, and 2002 for $700,000, $650,000, and $800,000, respectively, and are included in "Net proceeds from sales of assets" in the Company's respective consolidated statements of cash flows. At December 31, 2004, and 2003, the balances on the notes in the consolidated balance sheets include approximately $340,000 and $644,000, respectively, in "Other current assets." The long-term portion of the note receivable at December 31, 2003, was $340,000, included in "Other assets, net" in the Company's consolidated balance sheet.

RECEIVABLES SOLD OR COLLATERALIZED

2.41 Table 2-6 shows that 2004 annual reports ot 139 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. Of those 139 survey companies, 7 disclosed a factoring agreement and 67 disclosed that the receivables were transferred to a special-purpose entity.

2.42 SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, as amended by *SFAS No. 133* and as replaced by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing, *SFAS No. 140* revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures. The Standard carries over most of the provisions of *SFAS No. 125* without reconsideration. Additionally, *SFAS No. 140* requires a debtor to:

(a) reclassify financial assets pledged as collateral and report those assets in its statement of financial position separately from other assets not so encumbered if the secured party has the right by contract or custom to sell or repledge the collateral, and

(b) disclose assets pledged as collateral that have not been reclassified and separately reported in the statement of financial position.

Also, *SFAS No. 140* requires a secured party to disclose information about collateral that it has accepted and is permitted by contract or custom to sell or repledge. The required disclosure includes the fair value at the end of the period of that collateral and the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral.

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

	2004	2003	2002	2001
Receivables sold				
With recourse	20	23	24	21
With limited recourse	10	14	14	18
Without recourse	40	36	44	40
Recourse not discussed	58	65	61	54
	128	**138**	**143**	**133**
Receivables used as collateral	11	17	17	27
	139	**155**	**160**	**160**
No reference to receivable sold or collateralized	461	445	440	440
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold With Recourse

2.46

LOWE'S COMPANIES, INC. (JAN)

(In millions)	2005	2004
Current assets:		
Cash and cash equivalents	$ 642	$ 913
Short-term investments	171	711
Accounts receivable—Net (Notes 1 and 5)	9	146
Merchandise inventory	5,982	4,584
Deferred income taxes	95	62
Other assets	75	106
Total current assets	$6,974	$6,522

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts Receivable

The majority of accounts receivable arise from sales to Commercial Business Customers. The Company sells its commercial business accounts receivable to General Electric Company and its subsidiaries (GE). When the Company sells its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to GE's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, GE's servicing costs and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

See Note 5 for further discussion of the sale of the Company's accounts receivable during fiscal 2004.

The allowance for doubtful accounts is based on historical experience and a review of existing receivables. The allowance for doubtful accounts was $2 million at January 28, 2005, and $7 million at January 30, 2004.

Sales generated through the Company's private label credit cards are not reflected in receivables. Under an agreement with GE, credit is extended directly to customers by GE. All credit program-related services are performed and controlled directly by GE. The Company has the option, but no obligation, at the end of the agreement to purchase the receivables.

The total portfolio of receivables held by GE, including both receivables originated by GE from the Company's private label credit cards and commercial business accounts receivable originated by the Company and sold to GE, approximated $4.5 billion at January 28, 2005, and $3.8 billion at January 30, 2004.

Note 5. Accounts Receivable

In May 2004, the Company entered into an agreement with GE to sell its then-existing portfolio of commercial business accounts receivable to GE. During the term of the agreement, which ends on December 31, 2009, unless terminated sooner by the parties, GE also purchases at face value new commercial business accounts receivable originated by the Company and services these accounts. These receivables arise primarily from sales of goods and services to the Company's Commercial Business Customers.

The Company accounts for the transfers as sales of the accounts receivable. When the Company sells its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to GE's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, GE's servicing costs and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

The initial portfolio of commercial business accounts receivable sold to GE in May 2004 totaled $147 million. Total commercial business accounts receivable sold to GE since program inception through the end of 2004 totaled $1.2 billion. During 2004, the Company recognized losses of $34 million on these sales as SG&A expense, which primarily relate to the fair value of the obligations incurred related to servicing costs that are remitted to GE monthly. At January 28, 2005, the fair value of the retained interests was a net liability of $0.2 million and was determined based on the present value of expected future cash flows.

Receivables Sold With Limited Recourse

2.47

LEXMARK INTERNATIONAL, INC. (DEC)

(In millions)	2004	2003
Current assets:		
Cash and cash equivalents	$ 626.2	$ 744.6
Marketable securities	940.5	451.5
Trade receivables, net of allowances of $40.5 in 2004 and $48.1 in 2003	744.4	615.4
Inventories	464.9	437.0
Prepaid expenses and other current assets	224.9	195.3
Total current assets	$3,000.9	$2,443.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

4. Trade Receivables

The company's trade receivables are reported in the Consolidated Statements of Financial Position net of allowances for doubtful accounts and product returns. Trade receivables consisted of the following at December 31:

	2004	2003
Gross trade receivables	$784.9	$663.5
Allowances	(40.5)	(48.1)
Trade receivables, net	$744.4	$615.4

In the U.S., the company sells a majority of its receivables to its wholly-owned subsidiary, Lexmark Receivables Corporation ("LRC"), which then sells 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 as sales transactions.

In October 2001, the company entered into an agreement to sell its U.S. trade receivables on a limited recourse basis that allowed for a maximum amount of financing availability of $225.0 million. In October 2003, the agreement was amended and the maximum amount of U.S. trade receivables to be sold was decreased to $200.0 million. In October 2004, the company entered into an amended and restated agreement to sell its U.S. trade receivables on a limited recourse basis. The amended agreement allows for a maximum financing 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.

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 U.S. trade receivables sold, since the company overcollateralizes the receivables sold with additional eligible receivables. The company addresses this risk of loss in its allowance for doubtful accounts. Receivables sold may not include amounts over 90 days past due or concentrations over certain limits with any one customer. At December 31, 2004 and 2003, the facility had no U.S. trade receivables sold and outstanding.

Expenses incurred under this program totaling $0.4 million, $0.3 million and $1.3 million for 2004, 2003 and 2002, respectively, are included on the other expense line in the Consolidated Statements of Earnings.

2.48

NAVISTAR INTERNATIONAL CORPORATION (OCT)

(Millions of dollars)	2004	2003
Current assets		
Cash and cash equivalents	$ 605	$ 467
Marketable securities	182	80
Receivables, net	1,215	932
Inventories	790	592
Deferred tax asset, net	207	183
Other assets	168	165
Total current assets	$3,167	$2,419

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Sales of Receivables

NFC securitizes finance receivables through qualified special purpose entities (QSPE), which then issue securities to public and private investors. NFC sells receivables to the QSPEs with limited recourse. Gains or losses on sales of receivables are credited or charged to finance in the periods in which the sales occur. Retained interests, which include interest-only receivables, cash reserve accounts and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The accretion of the discount related to the retained interests is recognized on an effective yield basis.

Management estimates the prepayment speed for the receivables sold, the discount rate used to determine the present value of the interest-only receivable and the anticipated net losses on the receivables in order to calculate the gain or loss. The method for calculating the gain or loss aggregates the receivables in a homogenous pool. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors, and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the retained interests on a quarterly basis. The fair value of the interest-only receivable is based on present value estimates of expected cash flows using management's key assumptions of prepayment speeds, discount rates and net losses.

5. Receivables

Receivables at October 31 are summarized by major classification as follows:

(Millions of dollars)	2004	2003
Accounts receivable	$ 753	$ 618
Retail notes	888	587
Lease financing	181	191
Wholesale notes	263	128
Amounts due from sales of receivables	384	349
Allowance for losses	(32)	(50)
Total receivables, net	2,437	1,823
Less current portion	(1,215)	(932)
Finance and other receivables, net	$ 1,222	$ 891

The financial services segment purchases the majority of the wholesale notes receivable and some retail notes and accounts receivable arising from the company's manufacturing operations.

The current portion of finance and other receivables is computed based on contractual maturities. The actual cash collections may vary from the contractual cash flows because of sales, prepayments, extensions and renewals. The contractual maturities, therefore, should not be regarded as a forecast of future collections. Contractual maturities of accounts receivable, retail notes, lease financing and wholesale notes, including unearned finance income, at October 31, 2004, were: 2005—$1,245 million, 2006—$412 million, 2007—$200 million, 2008—$157 million, 2009—$122 million and 2010 and thereafter—$40 million. Unearned finance income totaled $91 million at October 31, 2004 and $67 million at October 31, 2003.

6. Sales of Receivables

NFC's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers and, as a result, NFC's finance receivables and leases have significant concentration in the trucking industry. On a geographic basis there is not a disproportionate concentration of credit risk in any area of the United States. NFC retains as collateral an ownership interest in the equipment associated with leases and a security interest in equipment associated with wholesale notes and retail notes.

NFC securitizes and sells receivables through Navistar Financial Retail Receivable Corp. (NFRRC), Navistar Financial Securities Corp. (NFSC), Truck Retail Accounts Corp. (TRAC) and Truck Engine Receivables Financing Co. (TERFCO), all special purpose, wholly owned subsidiaries (SPC's) of NFC. the sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from the company's consolidated balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities.

In fiscal 2004, NFC sold $1,120 million of retail notes and finance leases receivables, net of unearned finance income, through NFRRC in three separate sales. NFC sold $195 million of finance receivables during the quarter ended January 2004, $600 million during the quarter ended April 2004, and $325 million during the quarter ended July 2004 to trusts and conduits which, in turn, issued asset-backed securities that were sold to investors. Pre-tax gains of $26 million were recognized on the sales. In fiscal 2003, NFC sold $1,750 million of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of $46 million were recognized on the sales. In fiscal 2002, NFC sold $1,000 million of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of $16 million were recognized on the sales.

As of October 31, 2004, NFSC has in place a revolving wholesale note trust that provides for the funding of up to $1,186 million of eligible wholesale notes. The trust is comprised of a $200 million tranche of investor certificates maturing in 2008, three $212 million tranches of investor certificates maturing in 2005, 2006, and 2007, variable funding certificates with a maximum capacity of $200 million maturing in February 2005 and a seller certificate of $150 million.

As of October 31, 2004, NFC had utilized $1,132 million of the revolving wholesale note trust.

During the second quarter of 2004, TRAC obtained financing for its retail accounts with a bank conduit that provides for the funding of up to $100 million of eligible retail accounts. The revolving retail account facility expires in April 2005. The sales of retail accounts under TRAC constitute sales under generally accepted accounting principles in the United States of America, with the result that the sold accounts are removed from NFC's balance sheet and the investor's interests are not reflected as liabilities. TRAC is a separate corporate entity, and its assets will be available first and foremost to satisfy the claims of the creditors of TRAC. As of October 31, 2004, this facility was fully utilized.

As of October 31, 2004, TERFCO has in place a revolving trust that provides for the funding of up to $100 million of eligible Ford Motor Company accounts receivables. This facility, which will expire in 2005, was fully utilized as of October 31, 2004.

The SPC's have limited recourse on the sold receivables. The SPC's assets are available to satisfy the creditors' claims prior to such assets becoming available for the SPC's own uses or to NFC or affiliated companies. The terms of receivable sales generally require NFC to provide credit enhancements in the form of overcollateralizations and/or cash reserves with the trusts and conduits. The use of such cash reserves by NFC is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions as of October 31, 2004 was $383 million.

NFC's management estimates the prepayment speed for the receivables sold, expected net credit losses and the discount rate used to determine the present value of the interest-only receivables in order to calculate the gain or loss. Estimates of prepayment speeds, expected credit losses, and discount rates are based on historical experience and other factors and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the retained interests on a quarterly basis utilizing updated estimates of these factors.

Key economic assumptions used in measuring the retained interests at the date of the sale for sales of retail notes and finance leases completed during fiscal 2004 were a prepayment speed of 1.2 to 1.4, weighted average life of 43 months, expected credit losses of 0.55%, an interest-only receivable discount rate of 15.2% to 15.3% and a reserve account discount rate of 3.2% to 4.1%. For those sales completed during fiscal 2003 the assumptions used were a prepayment speed of 1.2 to 1.4, weighted average life of 43 months, expected credit losses of 0.76%, an interest-only receivable discount rate of 15.5% to 18.1% and a reserve account discount rate of 3.1% to 4.4%. For those sales completed during fiscal 2002 the assumptions used were a prepayment speed of 1.2 to 1.4, weighted average life of 41 months, expected credit losses of 0.68%, an interest-only receivable discount rate of 16.9% to 18.2% and a reserve account discount rate of 5.1% to 5.6%.

The impact of a hypothetical 10% adverse change in these assumptions would have no material effect on the fair value of the retained interests as of October 31, 2004. These sensitivities are hypothetical and should be used with caution. The effect of a variation of a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another.

Serviced, sold and owned receivables balances are summarized below:

	2004				2003			
(Millions of dollars)	Retail & Finance	Wholesale	Accounts	Total	Retail & Finance	Wholesale	Accounts	Total
Service portfolio	$2,758	$1,305	$488	$4,551	$2,506	$861	$401	$3,768
Less sold receivables	1,943	1,132	200	3,275	1,986	815	100	2,901
Owned portfolio	$ 815	$ 173	$288	$1,276	$ 520	$ 46	$301	$ 867

Certain cash flows received from (paid to) securitization trusts/conduits were as follows for fiscal years:

(Millions of dollars)	2004	2003	2002
Proceeds from sales of finance receivables	$1,119	$1,701	$ 999
Proceeds from sales of finance receivables into revolving facilities	6,372	4,938	4,883
Servicing fees received	30	28	27
Repurchase of receivables in breach of terms	(28)	(69)	(129)
Cash used in exercise of purchase option	(87)	(140)	(85)
Servicing advances, net of reimbursements	5	7	28
Cash received upon release from reserve accounts	91	83	125
All other cash received from trusts	90	104	94

Receivables Sold Without Recourse

2.49

AVNET, INC. (JUN)

(Thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 312,667	$ 395,467
Receivables, less allowances of $78,410 and $84,042, respectively (Note 3)	1,743,962	1,471,806
Inventories	1,364,037	1,097,580
Other	63,320	161,237
Total current assets	$3,483,986	$3,126,090

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounts Receivable Securitization

The Company has an accounts receivable securitization program whereby the Company may sell receivables in securitization transactions and retain a subordinated interest and servicing rights to those receivables. The Company accounts for the program under the FASB's Statement of Financial Accounting Standards No. 140 ("SFAS 140"), *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates (see Note 3).

3. Accounts Receivable Securitization

The Company has an accounts receivable securitization program (the "Program") with two financial institutions that allows the Company to sell, on a revolving basis, an undivided interest of up to $350,000,000 in eligible U.S. receivables while retaining a subordinated interest in a portion of the receivables. The eligible receivables are sold without legal recourse to third party conduits through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Company continues servicing the sold receivables and charges the third party conduits a monthly servicing fee at market rates; accordingly, no servicing asset or liability has been recorded.

The Program qualifies for sale treatment under SFAS 140. As of July 3, 2004 and June 27, 2003, the Company had no drawings outstanding under the Program and therefore there are no securitized accounts receivable held by the third party conduits. Cash outflows for reduced drawings under the Program in the consolidated statements of cash flows for fiscal 2003 and 2002 reflect the impact of a lower amount of accounts receivable being sold, on a revolving basis, into the third party conduits during those fiscal years.

Expenses associated with the Program are as follows:

(Thousands)	2004	2003	2002
Losses on sales of receivables and discount on retained interest, net of servicing revenues	$ 52	$1,244	$ 8,511
Program, facility and professional fees	2,358	1,864	1,619
Total	$2,410	$3,108	$10,130

Losses on sales of receivables and discount on retained interest, net of related servicing revenues, are recorded in interest expense while the other costs associated with the Program are recorded in selling, general and administrative expenses in the accompanying consolidated statements of operations. To the extent there have been drawings under the Program, the Company has historically measured the fair value of its retained interests at the time of a securitization using a present value model incorporating two key assumptions: (1) a weighted average life of trade accounts receivable of 45 days and (2) a discount rate of 6.75% per annum.

The Program agreement requires the Company to maintain minimum senior unsecured credit ratings in order to continue utilizing the Program in its current form. These minimum ratings triggers are Ba3 by Moody's Investor Services or BB – by Standard & Poors. The term of the current Program agreement extends to August 2005.

2.50

COMMERCIAL METALS COMPANY (AUG)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 123,559	$ 75,058
Accounts receivable (less allowance for collection losses of $14,626 and $9,275)	607,005	397,490
Inventories	645,484	310,816
Other	48,184	68,902
Total current assets	$1,424,232	$852,266

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Sales of Accounts Receivable

The Company has an accounts receivable securitization program which it utilizes as a cost-effective, short-term financing alternative. Under this program, the Company and several of its subsidiaries periodically sell certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary (CMCR) CMCR is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling receivables generated by the Company. The Company, irrevocably and without recourse, transfers all applicable trade accounts receivable to CMCR. CMCR, in turn, sells an undivided percentage ownership interest in the pool of receivables to an affiliate of a third party financial institution. On April 22, 2004, the program was amended to add a second financial institution. CMCR may sell undivided intersts of up to $130 million, depending on the Company's level of financing needs.

The Company accounts for its transfers of receivables to CMCR together with CMCR's sales of undivided interests in these receivables to the financial institutions as sales under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." At the time an undivided interest in the pool of receivables is sold, the amount is removed from the consolidated balance sheet and the proceeds from the sale are reflected as cash provided by operating activities.

At August 31, 2004 and 2003, uncollected accounts receivable of $236 million and $152 million, respectively, had been sold to CMCR. The Company's undivided interest in these receivables (representing the Company's retained interest) was 83% and 100% at August 31, 2004 and 2003, respectively. At August 31, 2004, the financial institution buyers owned $40.0 million in undivided interests in CMCR's accounts receivable pool, which was reflected as a reduction in accounts receivable on the Company's consolidated balance sheet. The average monthly amounts of undivided interests owned by the financial institution buyers were $22.1 million, $15.4 million and $22.9 million for the years ended August 31, 2004, 2003 and 2002, respectively. The carrying amount of the Company's retained interest in the receivables approximated fair value due to the short-term nature of the collection period. The retained interest is determined reflecting 100% of any allowance for collection losses on the entire receivables pool. No other material assumptions are made in determining the fair value of the retained interest. This retained interest is subordinate to, and provides credit enhancement for, the financial institution buyers' ownership interest in CMCR's receivables, and is availabe to the financial institution buyers to pay any fees or expenses due to them and to absorb all credit losses incurred on any of the receivables. The Company is responsible for servicing the entire pool of receivables.

In addition to the securitization program described above, the Company's international subsidiaries in Europe and Australia periodically sell accounts receivable. These arrangements also constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy. In August 2004, the Company's Australian subsidiary entered into an agreement with a financial institution to periodically sell certain trade accounts receivable up to a maximum of 50 million AUD ($35 million). This Australian program contains convenants in which our subsidiary must meet certain coverage and tangible net worth levels (as defined). At August 31, 2004, our Australian subsidiary was in compliance with these covenants. Uncollected accounts receivable that had been sold under these international arrangements and removed from the consolidated balance sheets were $58.7 million and $20.8 million at August 31, 2004 and 2003, respectively. The average monthly amounts of international accounts receivable sold were $27.7 million, $16.5 million and $5.2 million for the years ended August 31, 2004, 2003 and 2002, respectively.

Discounts (losses) on domestic and international sales of accounts receivable were $1.6 million, $584 thousand and $793 thousand for the years ended August 31, 2004, 2003 and 2002, respectively. These losses primarily represented the costs of funds and were included in selling, general and administrative expenses.

Receivables Used as Collateral

2.51

SILICON GRAPHICS, INC. (JUN)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$154,855	$136,028
Short-term marketable investments	2,010	440
Short-term restricted investments	23,585	35,298
Accounts receivable, net of allowance for doubtful accounts of $4,575 in 2004; $6,439 in 2003	113,901	116,930
Inventories	66,938	70,870
Prepaid expenses	9,916	9,243
Other current assets	25,000	39,388
Current assets of discontinued operations	—	24,696
Total current assets	$396,205	$432,893

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Financing Arrangement

During fiscal 2002 and through March 2003, available credit under our asset-based credit facility was determined monthly based on 85% of eligible accounts receivable. We did not use this facility for cash borrowings, but rather to support letters of credit we are required to provide as security under certain lease obligations. This obligation bore interest payable monthly at the prime rate plus 0.25% for cash advances and at 3.25% for letters of credit. During this period of time, the facility was secured by the pledge of our U.S. accounts receivable and inventory, certain intellectual property and a $7 million cash deposit. We also deposited additional cash when eligible accounts receivable, which fluctuate within the quarter, were below the level needed to secure our letters of credit. The credit facility also contained financial and other covenants. We obtained waivers of compliance with the convenants of this facility from the lenders in the first and third quarters of fiscal 2003 and the second, third and fourth quarters of fiscal 2002.

During the fourth quarter of fiscal 2003, we renewed our asset-based credit facility for a two-year term maturing in April 2005. In July 2004, the facility was amended to increase our maximum capacity under this line to $60 million. This facility is also subject to acceleration upon various events of default. The renewed facility is secured by U.S. and Canadian accounts receivable, U.S. inventory and equipment, the pledge of certain intellectual property and a $10 million cash deposit. Available credit under our asset-based credit facility is determined monthly based on 85% of eligible accounts receivable and an inventory collateral calculation based on the terms of the agreement. Generally, we do not use this facility for cash borrowings, but rather to support letters of credit, including letters of credit we are required to provide as security under certain lease obligations. As of June 25, 2004 we were using our full capacity under this line to secure $49 million in letters of credit. This obligation bears interest payable monthly at the prime rate plus 0.25% (4.25% at June 25, 2004) for cash advances and at 2.0% for letters of credit. We deposit additional cash collateral when the eligible accounts receivable and other collateral, which fluctuates within the quarter, is below the level needed to secure our letters of credit. At June 25, 2004, the credit facility was secured by a total of $16 million cash collateral, which is included as a component of Short-term Restricted Investments.

The credit facility contains financial and other covenants similar in nature to that of the previous facility, including a quarterly minimum EBITDA covenant, a requirement to maintain a daily unrestricted cash balance of at least $50 million and limits on annual capital expenditures. Our credit facility also includes covenants that, among other things, limit our ability to incur additional indebtedness, to consolidate or merge with, or sell substantially all our assets to, another person, issue capital stock, pay dividends on and redeem or repurchase our capital stock, or prepay or repurchase subordinated debt. During the fourth quarter of each of fiscal 2004 and 2003, we obtained a waiver of the EBITDA convenant and during the third quarter of fiscal 2004, we obtained a waiver of the minimum daily cash requirement. During the second quarter of fiscal 2004, we also obtained a waiver for an administrative reporting requirement. On September 1, 2004, we amended the credit facility to, among other things, set forth the quarterly minimum EBITDA requirement for each remaining quarter through the end of the term of the facility. In the event we are not able to comply with or obtain a waiver of the financial and other covenants of this facility, or there is a material adverse change affecting our ability to repay the outstanding balance, the facility may be declared to be in default. If a default is declared and not waived it could have a significant impact on our working capital.

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

	2004	2003	2002	2001
Allowance for doubtful accounts	317	327	286	283
Allowance	155	154	173	169
Allowance for uncollectible accounts	17	20	15	13
Allowance for losses	16	14	13	14
Reserve	14	11	10	14
Reserve for doubtful accounts	4	2	3	5
Other caption titles	11	10	23	26
	534	**538**	**523**	**524**
Receivables shown net	21	21	28	25
No reference to doubtful accounts	45	41	49	51
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 costs . . ." Approximately 83% 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. 106 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. 31 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. 158 survey companies disclosed that they have inventory valuation accounts. 105 companies disclosed that a valuation account was used to reduce inventories to a LIFO basis. 48 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. Three 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			
	2004	2003	2002	2001
Finished goods	354	348	339	341
Finished goods and work in process	28	27	30	36
Work in process	264	249	278	269
Work in process and raw materials	47	60	29	38
Raw materials	212	216	193	203
Raw materials and supplies/parts	105	113	117	111
Supplies and/or materials	91	83	89	84

2.64

TABLE 2-9: INVENTORY COST DETERMINATION

	Number of Companies			
	2004	2003	2002	2001
Methods				
First-in first-out (FIFO)	386	384	380	382
Last-in first-out (LIFO)	239	251	255	265
Average cost	169	167	165	180
Other	27	31	28	46
Use of LIFO				
All inventories	20	26	17	17
50% or more of inventories	108	120	121	130
Less than 50% of inventories	85	77	88	88
Not determinable	26	28	29	30
Companies Using LIFO	**239**	**251**	**255**	**265**

2.65

TABLE 2-10: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	2004		2003	
	No.	%(1)	No.	%(1)
Advertising, marketing	—	—	—	—
Aerospace	5	29	5	29
Apparel	7	47	7	50
Beverages	4	40	4	40
Building materials, glass	5	63	6	75
Chemicals	23	85	24	83
Computer and data services	—	—	—	—
Computer peripherals	—	—	—	—
Computer software	—	—	—	—
Computers, office equipment	1	9	1	9
Diversified outsourcing services	—	—	—	—
Electronics, electrical equipment	13	31	12	29
Engineering, construction	1	8	1	9
Entertainment	—	—	—	—
Food	12	52	12	50
Food and drug stores	13	81	11	73
Food services	—	—	—	—
Forest and paper products	14	70	16	80
Furniture	8	80	8	67
General merchandisers	9	90	9	82
Health care	—	—	—	—
Homebuilders	—	—	—	—
Hotels, casinos, resorts	—	—	—	—
Industrial and farm equipment	25	69	26	74
Medical products and equipment	3	23	4	31
Metal products	15	79	17	81
Metals	12	80	12	86
Mining, crude-oil production	2	14	3	23
Miscellaneous	1	17	2	22
Motor vehicles and parts	9	60	10	59
Network communications	—	—	—	—
Petroleum refining	11	79	12	92
Pharmaceuticals	4	40	4	40
Publishing, printing	9	43	11	55
Rubber and plastic products	4	57	5	83
Scientific, photographic, and control equipment	5	26	5	25
Semiconductors	—	—	—	—
Soaps, cosmetics	3	43	3	38
Specialty retailers	6	33	5	29
Telecommunications	—	—	—	—
Temporary help	—	—	—	—
Textiles	3	75	3	60
Tobacco	3	50	3	50
Toys, sporting goods	—	—	—	—
Transportation equipment	2	50	2	50
Trucking, truck leasing	—	—	—	—
Waste management	—	—	—	—
Wholesalers	7	44	8	42
Total Companies	**239**	**40**	**251**	**42**

(1) This represents the percentage of survey companies that use LIFO in a particular industry classification. For example, 2004 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

THE FAIRCHILD CORPORATION (SEP)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 12,849	$ 6,601
Short-term investments	16,595	45,763
Accounts receivable—trade, less allowances of $2,950 and $1,433	28,834	11,569
Inventories:		
Finished goods	95,804	23,649
Work-in-process	1,439	859
Raw materials	616	536
	97,859	25,044
Net current assets of discontinued operations	—	52
Prepaid expenses and other current assets	8,774	4,057
Total current assets	$164,911	$93,086

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excess quantities, and other factors in evaluating net realizable value.

2.67

MAXTOR CORPORATION (DEC)

(In thousands)	2003	2004
Current assets:		
Cash and cash equivalents	$ 530,816	$ 378,065
Restricted cash	37,154	24,561
Marketable securities	44,543	103,969
Restricted marketable securities	42,337	—
Accounts receivable, net of allowance of doubtful accounts of $11,220 at December 27, 2003 and $8,228 at December 25, 2004	540,943	425,528
Other receivables	37,964	40,838
Inventories	218,011	229,410
Prepaid expenses and other	38,301	36,336
Total current assets	$1,490,069	$1,238,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories include material, direct labor and related manufacturing overhead, and are stated at the lower of cost (computed on a first-in, first-out basis) or market. The Company writes down its inventory for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

3 (In Part): Supplemental Financial Statement Data

(In thousands)	2003	2004
Inventories:		
Raw materials	$ 56,132	$ 79,904
Work-in-process	44,650	57,800
Finished goods	117,229	91,706
	$218,011	$229,410

Last-In First-Out

2.68

COOPER INDUSTRIES, LTD. (DEC)

(In millions)	2004	2003
Cash and cash equivalents	$ 652.8	$ 463.7
Receivables	820.9	738.6
Inventories	523.0	552.0
Deferred income taxes and other current assets	221.9	206.5
Total current assets	$2,218.6	$1,960.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are carried at cost or, if lower, net realizable value. On the basis of current costs, 57% and 58% of inventories at December 31, 2004 and 2003, respectively, were carried on the last-in, first-out (LIFO) method. The remaining inventories are carried on the first-in, first-out (FIFO) method. Cooper records provisions for potential obsolete and excess inventories.

Note 4. Inventories

(In millions)	2004	2003
Raw materials	$185.2	$182.8
Work-in-process	118.6	113.9
Finished goods	320.2	346.3
Perishable tooling and supplies	13.2	20.6
	637.2	663.6
Allowance for excess and obsolete inventory	(58.9)	(47.6)
Excess of current standard costs over LIFO costs	(55.3)	(64.0)
Net inventories	$523.0	$552.0

2.69

RYERSON TULL, INC. (DEC)

(Dollars in millions)	2004	2003
Current assets:		
Cash and cash equivalents	$ 18.4	$ 13.7
Restricted cash	0.8	1.1
Receivables less provision for allowances, claims and doubtful accounts of $14.0 and $11.7, respectively	465.4	257.8
Inventories (Note 2)	601.0	437.6
Income taxes receivable	—	4.2
Deferred income taxes	9.8	—
Total current assets	$1,095.4	$714.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Statement of Accounting and Financial Policies

Inventory Valuation

Inventories are valued at cost, which is not in excess of market. Cost is principally determined by the last-in, first-out ("LIFO") method.

Note 2. Inventories

Inventories were classified on December 31 as follows:

(Dollars in millions)	2004	2003
In process and finished products	$600.8	$437.4
Supplies	0.2	0.2
Total	$601.0	$437.6

Replacement costs for the LIFO inventories exceeded LIFO values by approximately $335 million and $61 million on December 31, 2004 and 2003, respectively. Approximately 92% and 95% of inventories are accounted for under LIFO at December 31, 2004 and 2003, respectively. Non-LIFO inventories consist primarily of inventory at three J&F Steel facilities and two Canadian facilities.

2.70

WINN-DIXIE STORES, INC. (JUN)

(Dollar amounts in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 56,818	$ 127,515
Marketable securities	19,275	19,188
Trade and other receivables, less allowance for doubtful items of $2,539 ($2,043 in 2003)	109,051	115,485
Income tax receivable	49,148	—
Merchandise inventories less LIFO reserve of $219,270 ($214,547 in 2003)	940,529	1,046,913
Prepaid expenses and other assets	24,814	31,272
Assets held for sale	51,034	4,177
Deferred income taxes	100,129	128,904
Total current assets	$1,350,798	$1,473,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

g) Inventories

Inventories are stated at the lower of cost or market. The "dollar value" last-in, first-out (LIFO) method is used to determine the cost of approximately 85% of inventories consisting primarily of merchandise in stores and distribution warehouses.

Manufacturing, pharmacy, produce and deli inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Elements of cost included in manufacturing inventories consist of material, direct labor and plant overhead.

The Company evaluates inventory shortages throughout the year based on actual physical counts in the facilities. Allowances for inventory shortages are recorded based on the results of these counts to provide for estimated shortages as of the balance sheet date.

3. Merchandise Inventories

At June 30, 2004, inventories valued by the LIFO method would have been $219,270 higher ($214,547 higher at June 25, 2003) if they were stated at the lower of FIFO cost or market. If the FIFO method of inventory valuation had been used, reported net loss would have been $2,867, or $0.02 per diluted share, higher in fiscal 2004, net earnings would have been $990, or $0.01 per diluted share, lower in fiscal 2003 and $2,996, or $0.02 per diluted share, lower in fiscal 2002.

During fiscal 2004, 2003 and 2002, certain inventory quantity reductions caused a liquidation of LIFO inventory values. The liquidations reduced net loss by $3,540, or $0.03 per diluted share in fiscal 2004 and increased net earnings by $1,626 or $0.01 per diluted share, and $2,606 or $0.02 per diluted share in fiscal 2003 and 2002, respectively.

Average Cost

2.71

INTERNATIONAL FLAVORS & FRAGRANCES INC. (DEC)

(Dollars in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 32,596	$ 12,081
Short-term investments	399	474
Receivables:		
Trade	353,442	336,980
Allowance for doubtful accounts	(17,663)	(16,212)
Other	22,582	18,957
Inventories	457,204	454,631
Deferred income taxes	79,267	66,070
Prepaid expenses	33,543	29,691
Total current assets	$961,370	$902,672

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost (on an average basis) or market.

Note 4. Inventories

(Dollars in thousands)	2004	2003
Raw materials	$197,782	$233,313
Work in process	12,759	15,815
Finished goods	246,663	205,503
Total	$457,204	$454,631

Specific Identification

2.72

STEEL TECHNOLOGIES INC. (SEP)

(In thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 2,273	$ 2,758
Trade accounts receivable, less allowance for doubtful accounts: $3,318 in 2004 and $1,808 in 2003	123,546	74,595
Inventories	178,490	84,301
Deferred income taxes	2,471	1,198
Prepaid expenses and other assets	5,629	4,628
Total current assets	$312,409	$167,480

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the specific identification method for all inventories.

3. Inventories

Inventories consist of:

(In thousands)	2004	2003
Raw materials	$132,570	$58,204
Finished goods and work in process	45,920	26,097
	$178,490	$84,301

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			
	2004	**2003**	**2002**	**2001**
Prepaid expenses	97	104	98	100
Prepaid expenses and other current assets	217	195	199	182
Prepaid expenses and deferred taxes	14	7	6	7
Prepaid expenses and other receivables	3	3	4	2
Prepaid expenses and advances	7	7	3	9
Employee benefits	6	7	9	14
Advertising costs	17	16	12	10
Other captions indicating prepaid expenses	9	19	15	20

2.75

HASBRO, INC. (DEC)

(Thousands of dollars)	2004	2003
Current assets		
Cash and cash equivalents	$ 725,002	$ 520,747
Accounts receivable, less allowance for *doubtful accounts of $37,000 in 2004* and $39,200 in 2003	578,705	607,556
Inventories	194,780	168,979
Prepaid expenses and other current assets	219,735	211,981
Total current assets	$1,718,222	$1,509,263

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Royalties

The Company enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. These agreements may call for payment in advance or future payment for minimum guaranteed amounts. Amounts paid in advance are recorded as an asset and charged to expense as revenue from the related products is recognized. If all or a portion of the minimum guaranteed amounts appear not to be recoverable through future use of the rights obtained under license, the nonrecoverable portion of the guaranty is charged to expense at that time.

15 (In Part): Commitments and Contingencies

The Company enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. Additionally, the Company has a long-term commitment related to promotional and marketing activities at a U.S. based theme park. Under terms of currently existing agreements, Hasbro may, provided the other party meets their contractual commitment, be required to pay amounts as follows:

2005	$107,000
2006	21,600
2007	10,200
2008	7,600
2009	5,600
2010 and thereafter	2,100
	$154,100

In addition, the Company has $80,167 of prepaid royalties included as a component of prepaid expenses and other current assets in the balance sheet. The long-term portion of advances paid of $87,188 is included in other assets. Advanced royalties paid and guaranteed or minimum royalties to be paid relate to anticipated revenues in the years 2005 through 2018.

2.76

TERRA INDUSTRIES INC. (DEC)

(In thousands)	2004	2003
Cash and short-term investments	$233,798	$ 87,334
Accounts receivable, less allowance for doubtful accounts of $262 and $87	150,271	133,480
Inventories	148,808	90,869
Other current assets	58,106	43,319
Total current assets	$590,983	$355,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Other Current Assets

Other current assets consisted of the following at December 31:

(In thousands)	2004	2003
Prepaid insurance	$ 9,953	$13,894
Prepaid natural gas	26,667	13,781
Deferred gains on natural gas hedges	—	8,164
Income taxes recoverable	11,500	—
Other current assets	9,986	7,480
Total	$58,106	$43,319

OTHER CURRENT ASSETS

2.77 Table 2-12 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expense) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset captions follow.

2.78

TABLE 2-12: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Nature of Asset				
Deferred income taxes	422	387	399	403
Property held for sale	93	67	62	47
Derivatives	41	34	23	33
Unbilled costs	15	13	10	7
Advances or deposits	10	10	15	9
Other—identified	32	50	49	60

Deferred Taxes

2.79

MICHAELS STORES, INC. (JAN)

(In thousands)	2005	2004
Current assets:		
Cash and equivalents	$ 535,852	$ 341,825
Short-term investments	50,379	—
Merchandise inventories	936,395	892,923
Prepaid expenses and other	26,613	29,198
Deferred income taxes	22,032	19,426
Total current assets	$1,571,271	$1,283,372

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

We record income tax expense using the liability method for taxes and are subject to income tax in many jurisdictions, including the United States, various states and localities, and Canada. A current tax liability or asset is recognized for the estimated taxes payable or refundable on the tax returns for the current year and a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted income 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 of a change in tax rates is recognized as income or expense 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. If different assumptions had been used, our tax expense, assets, and liabilities could have varied from recorded amounts. If actual results differ from estimated results or if we adjust these assumptions in the future, we may need to adjust our deferred tax assets or liabilities, which could impact our effective tax rate.

Note 5 (In Part): Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities as of the respective year-end balance sheets are as follows:

	Deferred Tax Asset (Liability)			
	2005		2004	
(In thousands)	Current	Noncurrent	Current	Noncurrent
Net operating loss, general business credit, and alternative minimum tax credit carryforwards	$ —	$ 4,344	$ —	$ 6,230
Accrued expenses	29,423	25,894	26,024	21,337
Other deferred tax assets	16,176	12,955	11,541	7,831
Valuation allowance	—	663	—	—
Depreciation and amortization	—	(62,474)	—	(54,384)
Translation adjustment	—	(3,510)	—	—
Other deferred tax liabilities	(23,567)	(8,227)	(18,139)	(9,255)
	$ 22,032	$(30,355)	$ 19,426	$(28,241)
Net deferred tax liabilities		$ (8,323)		$ (8,815)

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At January 29, 2005, we had state net operating loss carryforwards to reduce future taxable income of approximately $60.7 million expiring at various dates between fiscal 2005 and fiscal 2024. A valuation allowance of $663,000 was established in fiscal 2004 to reserve for state operating loss carryforwards, because we believe it is more likely than not that we will be unable to deduct these amounts. During fiscal 2003, we utilized our deferred tax assets related to foreign net operating losses, which had previously been reserved through a valuation allowance. The decrease in the valuation allowance was offset by amounts provided for United States federal income taxes owed for related foreign earnings.

2.80

PEABODY ENERGY CORPORATION (DEC)

(Dollars in thousands)	2004	2003
Current assets		
Cash and cash equivalents	$ 389,636	$117,502
Accounts receivable, less allowance for doubtful accounts of $1,361 at December 31, 2004 and 2003	193,784	220,891
Inventories	323,609	246,493
Assets from coal trading activities	89,165	58,321
Deferred income taxes	15,461	15,749
Other current assets	42,947	23,784
Total current assets	$1,054,602	$682,740

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Income taxes are accounted for using a balance sheet approach in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). The Company accounts for deferred income taxes by applying statutory tax rates in effect at the date of the balance sheet to differences between the book and tax basis of assets and liabilities. A valuation allowance is established if it is "more likely than not" that the related tax benefits will not be realized. In determining the appropriate valuation allowance, the Company considers projected realization of tax benefits, book and taxable income trends, available tax strategies and the overall deferred tax position.

12 (In Part): Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following:

(Dollars in thousands)	2004	2003
Deferred tax assets:		
Accrued reclamation and mine closing liabilities	$ 46,776	$ 43,955
Accrued long-term workers' compensation liabilities	100,157	98,951
Postretirement benefit obligations	391,410	416,639
Intangible tax asset and purchased contract rights	45,001	59,566
Tax credits and loss carryforwards	377,183	324,199
Obligation to industry fund	13,365	18,032
Additional minimum pension liability	48,188	52,566
Others	82,844	91,760
Total gross deferred tax assets	1,104,924	1,105,668
Deferred tax liabilities:		
Property, plant, equipment and mine development, leased coal interests and advance royalties, principally due to differences in depreciation, depletion and asset writedowns	1,271,758	1,292,311
Inventory	64,973	56,653
Others	2,465	5,985
Total gross deferred tax liabilities	1,339,196	1,354,949
Valuation allowance	(143,533)	(169,396)
Net deferred tax liability	$ (377,805)	$ (418,677)
Deferred taxes consisted of the following:		
Current deferred income taxes	$15,461	$15,749
Noncurrent deferred income taxes	(393,266)	(434,426)
Net deferred tax liability	$ (377,805)	$ (418,677)

The Company's deferred tax assets include alternative minimum tax ("AMT") credits of $54.0 million and net operating loss ("NOL") carryforwards of $322.7 million as of December 31, 2004. The AMT credits have no expiration date and the NOL carryforwards begin to expire in the year 2019. Utilization of the majority of these AMT credits and NOL carryforwards is subject to various limitations because of previous changes in ownership (as defined in the Internal Revenue Code) of the Company and ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. The AMT credits and NOL carryforwards are offset by a valuation allowance of $143.5 million. The valuation allowance was reduced by $25.9 million, $0.2 million and $26.9 million for the years ended

December 31, 2004, 2003 and 2002, respectively. The Company evaluated and assessed the expected near-term utilization of NOL's, book and taxable income trends, available tax strategies and the overall deferred tax position to determine the amount and timing of valuation allowance adjustments.

The Company establishes reserves for tax contingencies when, despite the belief that the Company's tax return positions are fully supported, certain positions are likely to be challenged and may not be fully sustained. The tax contingency reserves are analyzed on a quarterly basis and adjusted based upon changes in facts and circumstances, such as the progress of federal and state audits, case law and emerging legislation. The Company's effective tax rate includes the impact of tax contingency reserves and changes to the reserves, including related interest, as considered appropriate by management. The Company establishes the reserves based upon management's assessment of exposure associated with permanent tax differences (i.e. tax depletion expense, etc.) and certain tax sharing agreements. The Company is subject to federal audits for several open years due to its previous inclusion in multiple consolidated groups and the various parties involved in finalizing those years. The tax contingency reserve was decreased for the year ended December 31, 2003 by $10.0 million reflecting the reduction in exposure due to the completion of a federal audit for the tax years ended April 30, 1999, 2000 and 2001.

The total amount of undistributed earnings of foreign subsidiaries for income tax purposes was approximately $28.2 million and $2.2 million at December 31, 2004 and 2003, respectively. On October 22, 2004, the American Jobs Creation Act of 2004 (the "ACT") was signed into law. The Act creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the U.S. at an effective tax rate of 5.25%. FASB Staff Position FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" allows companies additional time to evaluate the effect of the law regarding whether unrepatriated foreign earnings continue to qualify for APB Opinion No. 23's exception for recognizing deferred tax liabilities as retained by SFAS 109. Through December 31, 2004, the Company has not provided deferred taxes on foreign earnings because such earnings were intended to be indefinitely reinvested outside the U.S. Whether the Company will ultimately take advantage of this provision depends on a number of factors, including reviewing future Congressional guidance, before a decision can be made. Until that time, the Company maintains its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries. Should the Company repatriate these earnings, a one-time tax charge to the Company's consolidated results of operations of up to $2 million could occur.

Property Held for Sale

2.81

CARLISLE COMPANIES INCORPORATED (DEC)

(Dollars in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 25,018	$ 23,361
Receivables, less allowance of $6,249 in 2004 and $6,770 in 2003	227,423	216,173
Inventories	315,528	252,015
Deferred income taxes	28,765	30,865
Prepaid expenses and other current assets	39,080	39,420
Current assets held for sale	16,455	20,608
Total current assets	$652,269	$582,442

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Discontinued Operations and Assets Held for Sale

In 2004, in ongoing efforts to streamline its businesses, the Company identified two operations and a segment it plans to exit. The two operations included the plastic components operation of Carlisle Tire & Wheel Company in the Industrial Components segment and the pottery business of Carlisle FoodService in the General Industry segment. Additionally, the Company decided to exit its automotive business consisting entirely of Carlisle Engineered Products in the Automotive Components segment. The Company is actively marketing these operations and conducting other actions required to complete the sale of these operations in 2005. All operations met the criteria in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets."

Total assets held for sale by segment at December 31 were as follows:

(In thousands)	2004	2003
Assets held for sale by segment:		
Industrial Components	$ 477	$ 5,133
Automotive Components	64,352	112,433
General Industry	2,160	3,975
Total assets held for sale	$66,989	$121,541

The major classes of assets and liabilities held for sale at December 31 included in the Company's Consolidated Balance Sheets were as follows:

(In thousands)	2004	2003
Assets held for sale:		
Receivables	$ 66	$ 2,645
Inventories	9,743	11,261
Prepaid expenses and other current assets	6,646	6,702
Total current assets held for sale	16,455	20,608
Property, plant and equipment, net	48,841	54,636
Goodwill, net	—	40,277
Notes receivable and other assets	645	—
Investments and advances to affiliates	1,048	6,020
Total assets held for sale	$66,989	$121,541
Liabilities associated with assets held for sale:		
Accounts payable	$21,685	$ 31,869
Accrued expenses	4,024	7,821
Total current liabilities associated with assets held for sale	25,709	39,690
Other long-term liabilities	1,970	809
Total liabilities associated with assets held for sale	$27,679	$ 40,499

Net sales and (loss) income before income taxes from discontinued operations by segment were as follows:

(In thousands)	2004	2003	2002
Net sales:			
Industrial Components	$ 6,094	$ 8,772	$ 6,960
Automotive Components	211,594	209,063	235,822
General Industry	2,079	2,839	3,682
Net sales from discontinued operations	$219,767	$220,674	$246,464
(Loss) income before income taxes:			
Industrial Components	$ (8,504)	$ (195)	$ (1,510)
Automotive Components	(48,027)	4,206	12,454
General Industry	(3,195)	(3,395)	(2,024)
(Loss) income from discontinued operations	$ (59,726)	$ 616	$ 8,920

In 2004, the Industrial Components segment included a $1.8 million charge related to a customer settlement and a $2.1 million write-down to fair value of assets held for sale. The settlement related to products produced at the plastic components operation of Carlisle Tire and Wheel Company. The settlement is final and no further costs are anticipated with this issue.

In 2004, the Automotive Components segment included a $40.3 million write-down for the impairment of its entire balance of goodwill based on management's estimate of fair value at December 31, 2004. Additionally, the Automotive Components segment included a $4.4 million write-down of an investment in a joint venture. The General industry segment included a $0.6 million write-down to fair value of assets held for sale.

In 2003, the General Industry segment included a $0.9 million impairment charge recorded in accordance with SFAS 144.

2.82

INTERFACE, INC. (DEC)

(In thousands)	2004	2003
Cash and cash equivalents	$ 22,164	$ 2,890
Accounts receivable, net	142,228	129,624
Inventories	137,618	128,659
Prepaid expenses and other current assets	18,200	16,529
Deferred income taxes	4,556	4,045
Assets of businesses held for sale	42,788	97,712
Total current assets	$367,554	$379,459

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

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. 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.

Discontinued Operations (In Part)

Re:Source Dealer Businesses

The Company committed to a plan to exit its owned Re:Source dealer businesses, and in the third quarter 2004 the Company began to dispose of several of the dealer subsidiaries. Therefore, the results for the owned Re:Source dealer businesses, as well as the Company's small Australian dealer and small residential fabrics businesses that management has also decided to exit, were reported as discontinued operations. In connection with this action, the Company also recorded write-downs for the impairment of assets and goodwill of $17.5 million and $29.0 million, respectively, in September 2004.

At January 2, 2005, the Company had sold five dealer businesses (four of which were sold to the respective general managers of those businesses) and had initiated closure of five others. The cash proceeds from the sales were $7.0 million. The Company also received promissory notes in an aggregate amount of $2.2 million at interest rates ranging from prime to 12% and with maturities ranging from one to three years. The Company recorded an after tax loss of $3.0 million in 2004 related to Re: Source dealer business dispositions.

Summary operating results for the Re:Source dealer businesses is as follows:

(In thousands)	2004	2003	2002
Net sales	$138,954	$157,015	$178,767
Income (loss) on operations before taxes on income (benefit)	(18,022)	(16,013)	(10,826)
Taxes on income (benefit)	(5,772)	(3,463)	(3,671)
Income (loss) on operations, net of tax	(12,250)	(12,550)	(7,155)
Impairment loss, net of tax	(46,565)	—	—
Loss on disposal, net of tax	(3,027)	—	—

Assets and liabilities, including reserves, related to Re:Source dealer businesses that were held for sale consist of the following:

(In thousands)	2004	2003
Current assets	$37,918	$62,716
Property and equipment	1,921	5,098
Other assets	2,949	854
Goodwill	—	29,044
Current liabilities	4,359	10,825
Long-term debt	—	—
Other liabilities	1,031	801

Derivatives

2.83

BOWATER INCORPORATED (DEC)

(In millions)	2004	2003
Current assets:		
Cash and cash equivalents	$ 29.7	$ 19.4
Accounts receivable, net	377.0	360.9
Inventories	327.9	293.1
Unrealized gain on hedged transactions	100.2	126.7
Other current assets	67.9	42.9
Total current assets	$902.7	$843.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments (In Part)

Derivative financial instruments are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (see below). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires that we record all derivatives as either assets or liabilities in the balance sheet at fair value. Changes in the derivative fair values that are designated effective and qualify as cash flow hedges are deferred and recorded as a component of "Accumulated other comprehensive income (loss)" until the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from "Accumulated other comprehensive income (loss)" to the Consolidated Statement of Operations on the same line as the underlying transaction (cost of sales). Any ineffective portion of a hedging derivative's change in fair value is recognized immediately in earnings.

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial reporting for derivative instruments and for hedging activities accounted for under SFAS No. 133 and is effective for contracts entered into or modified, and for hedges designated, after June 30, 2003. The adoption of SFAS No. 149 had no impact on our Consolidated Financial Statements.

Note 13 (In Part): Financial Instruments

Bowater utilizes certain derivative instruments to enhance its ability to manage risk relating to cash flow exposure. Derivative instruments are entered into for periods consistent with related underlying cash flow exposures and do not constitute positions independent of those exposures. We do not enter into contracts for speculative purposes; however, we do, from time to time enter into commodity and currency option contracts that are not accounted for as accounting hedges. On the date in which the derivative contract is entered we designate the derivative as a cash flow hedge.

We pay a significant portion of the operating expenses of our Canadian mill sites in Canadian dollars. To reduce our exposure to U.S. and Canadian dollar exchange rate fluctuations, we enter into and designate Canadian dollar forward contracts to hedge certain of our forecasted Canadian dollar cash outflows at the Canadian mill operations.

The components of the net gain (loss) related to cash flow hedges and included in "Accumulated other comprehensive income (loss)" for the years ended December 31, 2004, 2003, and 2002 are as follows:

(In millions)	2004	2003	2002
Gain (loss) resulting from reclassification of (gains) losses from Accumulated other comprehensive income (loss)	$(131.0)	$ (52.4)	$11.3
Unrealized gain (loss) for change in value of cash flow hedges	81.6	232.8	3.9
	(49.4)	180.4	15.2
Income tax (expense) benefit	18.8	(68.5)	(5.8)
Net gain (loss)	$ (30.6)	$111.9	$ 9.4

We expect to reclassify a gain of $100.2 million ($62.1 million, after taxes) from "Accumulated other comprehensive income (loss)" to earnings during the next twelve months as the hedged items affect earnings.

We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objectives and strategies for undertaking various hedge transactions. We link all hedges that are designated as cash flow hedges to forecasted transactions. The maximum time period we have hedged transactions is two years. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Our estimate of the ineffective portion of the hedge was not material for the periods presented. When it is determined that a derivative is not highly effective as a hedge, we discontinue hedge accounting prospectively.

The carrying amounts of our short-term financial assets and liabilities (excluding derivatives) approximate fair value. We estimate the fair value of our long-term debt using rates currently available for debt with similar terms and remaining maturities. The fair value of derivative financial instruments is based on current termination values or quoted market prices of comparable contracts.

Information regarding our Canadian dollar contracts' notional amount, carrying value, fair market value, and range of exchange rates of the contracts and long term debt is summarized in the table below. The notional amount of these contracts represents the amount of foreign currencies to be purchased or sold at maturity and does not represent our exposure on these contracts.

(In millions)	Notional Amount of Derivatives	Net Asset (Liability) Carrying Amount	Net Asset (Liability) Fair Market Value	Range of U.S.$/CDN$ Exchange Rates	Weighted Average U.S.$/CDN$ Exchange Rate
December 31, 2004					
Foreign currency exchange agreements buy currency:					
Canadian dollar					
Due in 2005	$ 507.0	$ 100.2	$ 100.2	.7489–.6316	.6943
Due in 2006	183.0	22.8	22.8	.7609–.7124	.7384
	$ 690.0	$ 123.0	$ 123.0		
Long-term debt		$(2,441.9)	$(2,564.1)		
December 31, 2003					
Foreign currency exchange agreements buy currency:					
Canadian dollar					
Due in 2004	$ 572.5	$ 126.7	$ 126.7	.6476–.6124	.6247
Due in 2005	507.0	45.7	45.7	.7489–.6316	.6943
	$ 1,079.5	$ 172.4	$ 172.4		
Long-term debt		$(2,305.8)	$(2,426.5)		

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The counterparties to our derivative financial instruments are substantial and creditworthy multi-national financial institutions. Therefore, the risk of counterparty nonperformance is considered to be remote.

Unbilled Costs

2.84

GENERAL DYNAMICS CORPORATION (DEC)

(Dollars in millions)	2004	2003
Current assets:		
Cash and equivalents	$ 976	$ 861
Accounts receivable	1,459	1,344
Contracts in process	2,895	2,473
Inventories	1,205	1,159
Assets of discontinued operations	343	387
Other current assets	409	400
Total current assets	$7,287	$6,624

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Revenue Recognition

General Dynamics accounts for sales and earnings under long-term government contracts and programs using the percentage-of-completion method of accounting in accordance with AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. The company estimates the total profit on a contract as the difference between the total estimated revenue and the total estimated costs of a contract and recognizes that profit over the remaining life of the contract. The company determines progress toward completion based on either input measures, such as costs incurred, or output measures, such as units delivered, depending on the nature of the contract. The company applies eamings rates to all contract costs, including general and administrative (G&A) expenses, to determine sales and operating eamings.

The company reviews earnings rates periodically to assess revisions in contract values and estimated costs at completion. Any changes in earnings rates resulting from these assessments are made prospectively. The company charges any anticipated losses on contracts and programs to earnings as soon as they are identified. Anticipated losses cover all costs allocable to the contracts, including G&A expenses on government contracts. The company recognizes revenue arising from a claims process either as income or as an offset against a potential loss only when the amount of the claim can be estimated reliably and its realization is probable.

The company accounts for contracts for aircraft certified by the U.S. Federal Aviation Administration in accordance with Statement of Position 81-1. These contracts usually provide for two major milestones: the manufacture of the "green" aircraft and its completion. Completion includes exterior painting and installation of customer-selected interiors and optional avionics. The company records revenue at two points: when green aircraft are delivered to, and accepted by, the customer and when the customer accepts final delivery of the fully outfitted aircraft. The company recognizes sales of all other aircraft products and services when the product is delivered or the service is performed.

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Accounts Receivable and Contracts in Process

Accounts receivable are amounts billed and currently due from customers. Contracts in process represent recoverable costs and, where applicable, accrued profit related to long-term government contracts on which revenue has been recognized, but for which the customer has not yet been billed (unbilled receivables).

F. Contracts in Process

Contracts in process represent costs and accrued profit related to defense contracts and programs and consisted of the following:

	2004	2003
Contract costs and estimated profits	$21,508	$17,124
Other contract costs	768	745
	22,276	17,869
Less advances and progress payments	19,381	15,396
	$ 2,895	$ 2,473

Contract costs consist primarily of production costs and related overhead, such as G&A expenses. Contract costs also include contract recoveries for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled $7 as of December 31, 2004, and $21 as of December 31, 2003. The company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable.

Other contract costs represent amounts recorded under GAAP that are not currently allocable to contracts, such as a portion of the company's estimated workers' compensation, other insurance-related assessments, retirement benefits and environmental expenses. These costs will become allocable to contracts when they are paid. The company expects to recover these costs through ongoing business, including existing backlog and probable follow-on contracts. This business base includes numerous contracts for which the company is the sole source or is one of two suppliers on long-term defense programs. However, if the 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.

Advances/Deposits

2.85

SPHERION CORPORATION (DEC)

(Amounts in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 5,154	$ 21,248
Receivables, less allowance for doubtful accounts of $7,077 and $6,671	352,606	330,001
Deferred tax asset	19,263	20,868
Income tax receivable	12,363	20,710
Insurance deposit	26,436	27,412
Other current assets	18,885	19,261
Assets of discontinued operations	4,772	—
Total current assets	$439,479	$439,500

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accrued Self-Insurance Losses

Spherion retains a portion of the risk under its workers' compensation, general liability/professional liability, employment practices liability and health insurance benefits programs. Reserves have been recorded which reflect the discounted estimated liabilities including claims incurred but not reported. Workers' compensation losses, general liability/professional liability and employment practices liability losses have been discounted at 4.2% and 4.5% at December 31, 2004 and December 26, 2003, respectively, and are based on actuarial estimates. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, there can be no assurance that changes to management's estimates may not occur due to limitations inherent in the estimation process. Changes in the estimates of these accruals are charged or credited to earnings in the period determined. Spherion funds its workers' compensation liability with an insurance deposit. This deposit was $92.9 million and $95.1 million at December 31, 2004 and December 26, 2003, respectively, and is included in "Insurance deposit" in the accompanying consolidated balance sheets. The deposit will be used to fund claims and cannot be used for general corporate purposes.

PROPERTY, PLANT, AND EQUIPMENT

2.86 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 2004, 121 survey companies disclosed that interest costs were capitalized during the period.

2.87 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.

2.88 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.

2.89 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.

2.90 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.

2.91 Examples of Property, Plant, and Equipment disclosures follow.

2.92

TABLE 2-13: LAND CAPTIONS

	2004	2003	2002	2001
Land	339	342	335	343
Land and improvements	132	132	124	127
Land and buildings	56	55	54	55
Land combined with other identified assets	9	7	12	10
No caption with term land	48	47	52	49
	584	**583**	**577**	**584**
Lines of business classification	16	17	23	16
Total Companies	**600**	**600**	**600**	**600**

2.93

TABLE 2-14: DEPRECIABLE ASSET CAPTIONS

	2004	2003	2002	2001
Buildings				
Buildings	189	195	191	201
Buildings and improvement	269	256	254	248
Building and land or equipment	84	73	72	75
Buildings combined with other identified assets	14	14	16	15
No caption with term buildings	32	49	54	49
	588	**587**	**587**	**588**
Line of business classification	12	13	13	12
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Other Depreciable Asset Captions				
Machinery and/or equipment	391	387	385	396
Machinery and/or equipment combined with other assets	128	113	129	131
Construction in progress	276	274	272	282
Leasehold improvements	135	131	131	116
Lease assets	60	66	56	62
Automobiles, marine equipment, etc.	89	84	92	72
Furniture and fixtures	106	107	100	87
Computer equipment	59	38	43	43
Software	56	58	49	40
Assets leased to others	15	21	19	13

2.94

TABLE 2-15: ACCUMULATED DEPRECIATION

	2004	2003	2002	2001
Accumulated depreciation	337	336	326	322
Accumulated depreciation and amortization	192	193	200	195
Accumulated depreciation amortization and depletion	19	16	20	20
Accumulated depreciation and depletion	6	7	7	9
Allowance for depreciation	17	20	23	25
Allowance for depreciation and amortization	9	6	6	6
Other captions	20	22	18	23
Total Companies	**600**	**600**	**600**	**600**

2.95

BEMIS COMPANY, INC. (DEC)

(Dollars in thousands)	2004	2003
Total current assets	$ 873,767	$ 751,906
Property and equipment:		
Land and land improvements	26,737	25,213
Buildings and leasehold improvements	344,494	334,218
Machinery and equipment	1,315,770	1,255,877
Total property and equipment	1,687,001	1,615,308
Less accumulated depreciation	(748,427)	(700,033)
Net property and equipment	938,574	915,275
Other long-term assets:		
Goodwill	442,181	450,593
Other intangible assets	65,396	71,149
Deferred charges and other assets	166,825	104,009
Total other long-term assets	674,402	625,751
Total assets	$2,486,743	$2,292,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs that do not improve efficiency or extend economic life are expensed as incurred. Plant and equipment are depreciated for financial reporting purposes principally using the straight-line method over the estimated useful lives of assets as follows: land improvements, 15–30 years; buildings, 15–45 years; leasehold and building improvements 8–20 years; and machinery and equipment, 3–16 years. For tax purposes, the Company generally uses accelerated methods of depreciation. The tax effect of the difference between book and tax depreciation has been provided as deferred income taxes. Depreciation expense was $126,082,000, $122,295,000, and $114,170,000 for 2004, 2003, and 2002, respectively. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in income. Interest costs, which are capitalized during the construction of major capital projects, totaled $178,000 in 2004, $135,000 in 2003, and $55,000 in 2002.

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the carrying values are reduced to the estimated fair value.

The Company capitalizes direct costs of materials and services used in the development and purchase of internal-use software. Amounts capitalized are amortized on a straight-line basis over a period of three to seven years and are reported as a component of machinery and equipment within property and equipment.

2.96

HARSCO CORPORATION (DEC)

(In thousands)	2004	2003
Total current assets	$ 924,924	$ 764,351
Property, plant and equipment, net	932,298	865,443
Goodwill, net	433,125	407,846
Other assets	98,477	97,483
Assets held for sale	932	2,912
Total assets	$2,389,756	$2,138,035

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation

Property, plant and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using principally the straight-line method. When property is retired from service, the cost of the retirement is generally charged to the allowance for depreciation to the extent of the accumulated depreciation and the balance is charged to income. Long-lived assets to be disposed of by sale are not depreciated while they are held for sale.

Impairment of Long-Lived Assets (Other than Goodwill)

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(In thousands)	2004	2003
Land and improvements	$ 39,838	$ 39,311
Buildings and improvements	185,807	175,482
Machinery and equipment	2,027,765	1,803,867
Uncompleted construction	45,083	37,505
Gross property, plant and equipment	2,298,493	2,056,165
Less accumulated depreciation and facilities valuation allowance	(1,366,195)	(1,190,722)
Net property, plant and equipment	$ 932,298	$ 865,443

The estimated useful lives of different types of assets are generally:

Land improvements	5 to 20 years
Buildings and improvements	10 to 50 years
Certain plant, buildings and installations (principally Mill Services Segment)	3 to 10 years
Machinery and equipment	3 to 20 years
Leasehold improvements	Estimated useful life of the improvement or, if shorter, the life of the lease

2.97

METTLER-TOLEDO INTERNATIONAL INC. (DEC)

(In thousands)	2004	2003
Total current assets	$ 552,357	$ 505,537
Property, plant and equipment, net	242,709	231,512
Goodwill	433,675	421,940
Other intangible assets, net	126,506	129,406
Non-current deferred tax assets, net	72,847	40,683
Other non-current assets	51,978	58,198
Total assets	$1,480,072	$1,387,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

2 (In Part): Summary of Significant Accounting Policies

Long-Lived Assets (In Part)

a) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	15 to 50 years
Machinery and equipment	3 to 12 years
Computer software	3 to 5 years
Leasehold improvements	Shorter of useful life or lease term

b) Capitalized Software

In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), the Company expenses all internal-use software costs incurred in the preliminary project stage and capitalizes certain direct costs associated with the development and purchase of internal-use software within property, plant and equipment. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the software, generally not exceeding five years.

Accounting for Impairment of Long-Lived Assets

In accordance with SFAS 144, the Company assesses the need to record impairment losses on long-lived assets with finite lives when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. An impairment loss would be recognized when future estimated undiscounted cash flows expected to result from use of the asset are less than the asset's carrying value, with the loss measured at fair value based on discounted expected cash flows.

6. Property, Plant and Equipment, Net

Property, plant and equipment, net, consisted of the following at December 31:

	2004	2003
Land	$ 57,478	$ 52,119
Buildings and leasehold improvements	156,918	143,755
Machinery and equipment	236,874	225,307
Computer software	5,016	5,414
	456,286	426,595
Less accumulated depreciation and amortization	(213,577)	(195,083)
	$ 242,709	$ 231,512

2.98

STEWART & STEVENSON SERVICES, INC. (JAN)

(In thousands)	2005	2004
Total current assets	$462,955	$447,806
Property, plant and equipment net	119,261	133,203
Deferred income tax asset	20,973	12,391
Intangibles and other assets, net	10,153	9,263
Total assets	$613,342	$602,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost. Depreciation is computed over the estimated useful lives of the assets, using the straight-line method. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized. The range of estimated service lives used to calculate financial reporting depreciation for principal items of property, plant and equipment are as follows:

Machinery and equipment	2–7 years
Computer hardware and software	3–5 years
Building and leasehold improvements	10–25 years
Rental equipment	2–8 years

The Company assesses the valuation of components of its property, plant and equipment and other long-lived assets whenever events or circumstances dictate that the carrying value might not be recoverable. The Company bases its evaluation on indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If such factors indicate that the carrying amount of an asset or asset group may not be recoverable, the Company determines whether impairment has occurred by analyzing an estimate of undiscounted future cash flows at the lowest level for which identifiable cash flows exist. If the estimate of undiscounted future cash flows during the estimated useful life of the asset is less than the carrying value of the asset, the Company recognizes a loss for the difference between the carrying value of the asset and its estimated fair value, measured by the present value of estimated future cash flows or third party appraisal, as appropriate under the circumstances.

Note 14 (In Part): Supplemental Financial Data

Property, Plant and Equipment

Components of Property, plant and equipment, net are as follows:

(In thousands)	2004	2003
Machinery and equipment	$ 114,060	$ 122,096
Buildings and leasehold improvements	89,762	84,930
Rental equipment	52,762	50,955
Computer hardware and software	28,381	34,876
Accumulated depreciation	(182,189)	(181,046)
Net depreciable assets	102,776	111,811
Construction in progress	5,217	8,506
Land	11,268	12,886
Property, plant and equipment, net	$ 119,261	$ 133,203

Depreciation expense was $26.1 million, $29.6 million and $27.1 million in Fiscal 2004, 2003 and 2002, respectively.

Rental equipment includes forklift equipment, generator sets and other equipment that is leased to customers under operating lease arrangements with terms ranging from one month up to three years: Rental equipment is depreciated over its estimated useful life, and is occasionally transferred into finished goods inventory for resale to customers.

During the fourth quarter of Fiscal 2004, the Company extended the estimated useful lives of certain machinery and equipment assets within the Tactical Vehicle Systems segment from four years to ten years. This change in estimated life was made due to the expected usage of such assets over the new five-year contract with the U.S. Army. As a result of this change in estimate, depreciation expense declined by $0.6 million ($0.4 million after tax) in Fiscal 2004.

As of January 31, 2005, $1.7 million of Property, plant and equipment was classified as assets held for sale, which is reported in Other current assets on the consolidated balance sheet. This balance reflects the net book value of a vacant facility held for sale, which is expected to be sold during Fiscal 2005. Assets held for sale at January 31, 2004 included $12.5 million of Property, plant and equipment, all of which was sold during Fiscal 2004, generating a net gain of $2.8 million.

INVESTMENTS

2.99 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.

2.100 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.

2.101 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. 205 survey companies made 223 fair value disclosures. 125 of those disclosures used market or broker quotes of the investments to determine fair value. 20 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. 85 disclosures presented carrying amounts which approximated fair value of investments. In addition, there were 94 disclosures in which carrying value was compared to fair value in an exposition or a table. Four disclosures stated it was not practicable to estimate fair value.

2.102 *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.

2.103 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.

2.104 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.

2.105 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.

2.106 Table 2-16 lists the balance sheet carrying bases for investments presented as noncurrent assets.

2.107 Table 2-17 lists descriptions of investments presented as non-current investments. Examples of presentations and disclosures for such investments follow.

2.108

TABLE 2-16: INVESTMENTS—CARRYING BASES

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Equity	293	290	304	308
Fair value	150	153	142	133
Cost	114	129	101	109
Lower of cost or market	4	3	4	4

2.109

TABLE 2-17: INVESTMENTS—DESCRIPTION

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Common stock	222	230	235	237
Marketable equity securities	122	114	121	114
Joint ventures	86	71	59	81
Debt	54	59	49	47
Leases	14	15	10	7
Preferred stock	14	14	11	14
Real estate	12	11	11	10
Other	32	21	30	24
No details	23	18	16	22

Equity Method

2.110

ARROW ELECTRONICS, INC. (DEC)

Consolidated Balance Sheet

(In thousands)	2004	2003
Total current assets	$4,027,533	$3,817,470
Property, plant and equipment at cost:		
Land	40,340	43,676
Buildings and improvements	184,344	197,142
Machinery and equipment	418,721	413,861
	643,405	654,679
Less: accumulated depreciation and amortization	(380,422)	(366,550)
Property, plant and equipment, net	262,983	288,129
Investments in affiliated companies	34,302	31,210
Cost in excess of net assets of companies acquired	974,285	923,256
Other assets	209,998	283,625
Total assets	$5,509,101	$5,343,690

Consolidated Statement of Operations

(In thousands)	2004	2003	2002
Sales	$10,646,113	$8,528,331	$7,269,799
Costs and expenses:			
Cost of products sold	8,922,962	7,107,378	6,010,226
Selling, general and administrative expenses	1,213,547	1,112,192	1,020,527
Depreciation and amortization	60,879	66,845	66,141
Acquisition indemnification charge (credit)	(9,676)	13,002	—
Restructuring charges	11,391	37,965	—
Integration charge (credit)	(2,323)	6,904	—
Impairment charge	9,995	—	—
Severance charge	—	—	5,375
	10,206,775	8,344,286	7,102,269
Operating income	439,338	184,045	167,530
Equity in earnings of affiliated companies	4,106	4,797	2,607
Loss on prepayment of debt	33,942	6,571	20,887
Loss on investment	1,318	—	—
Interest expense, net	103,201	134,987	152,590
Income (loss) before income taxes and minority interest	$ 304,983	$ 47,284	$ (3,340)

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 majority-owned subsidiaries. All significant intercompany transactions are eliminated.

Investments

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

The company has a 50% interest in several joint ventures with Marubun Corporation, collectively referred to as Marubun/Arrow, and a 50% interest in Altech Industries (Pty.) Ltd., 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 and the company's investment and long-term note receivable in Altech Industries at December 31, 2004 and 2003, and the equity in earnings of affiliated companies for the years ended December 31, 2004 and 2003:

	Investments in Affiliated Companies		Equity in Earnings of Affiliated Companies	
	2004	2003	2004	2003
Marubun/Arrow	$18,841	$15,364	$4,290	$3,967
Altech Industries	15,461	15,846	(184)	830
	$34,302	$31,210	$4,106	$4,797

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, 2004 and 2003, the company's prorata share of this debt was $7,750 and $7,290, respectively. The company believes there is sufficient equity in the joint ventures to cover this potential liability.

2.111

LIBERTY MEDIA CORPORATION (DEC)

Consolidated Balance Sheets

(Amounts in millions)	2004	2003
Total current assets	$ 4,788	$ 5,985
Investments in available-for-sale securities and other cost investments	21,847	19,566
Long-term derivative instruments	1,601	3,247
Investments in affiliates, accounted for using the equity method (Note 8)	3,734	3,613
Property and equipment, at cost	2,105	1,869
Accumulated depreciation	(713)	(492)
	1,392	1,377
Intangible assets not subject to amortization:		
Goodwill	9,073	8,911
Trademarks	2,385	2,385
	11,458	11,296
Intangible assets subject to amortization, net	4,440	4,821
Other assets, at cost, net of accumulated amortization	770	577
Assets of discontinued operations	151	3,743
Total assets	$50,181	$54,225

Consolidated Statements of Operations

(Amounts in millions)	2004	2003	2002
Revenue:			
Net sales from electronic retailing	$5,687	$1,973	$ —
Communications and programming services	1,995	1,765	1,804
	7,682	3,738	1,804
Operating costs and expenses:			
Cost of sales—electronic retailing services	3,594	1,258	—
Operating	1,736	1,161	943
Selling, general and administrative ("SG&A")	815	519	458
Stock compensation—SG&A	101	(88)	(46)
Litigation settlement	(42)	—	—
Depreciation	247	195	164
Amortization	489	270	178
Impairment of long-lived assets	—	1,362	187
	6,940	4,677	1,884
Operating income (loss)	742	(939)	(80)
Other income (expense):			
Interest expense	(615)	(529)	(410)
Dividend and interest income	131	164	183
Share of earnings (losses) of affiliates, net (note 8)	97	45	(89)
Realized and unrealized gains (losses) on derivative instruments, net	(1,284)	(662)	2,139
Gains (losses) on dispositions, net	1,406	1,125	(541)
Nontemporary declines in fair value of investments	(129)	(22)	(5,806)
Other, net	(24)	(55)	1
	(418)	66	(4,523)
Earnings (loss) from continuing operations before income taxes and minority interest	$ 324	$ (873)	$(4,603)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale and are carried at fair value ("AFS Securities"). Unrealized holding gains and losses on AFS Securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholders' equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather then as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or loss of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases in stockholders' equity.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be nontemporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS Securities are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

8) Investments in Affiliates Accounted for Using the Equity Method

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2004 and the carrying amount at December 31, 2003:

	2004		2003
(Dollar amounts in millions)	Percentage Ownership	Carrying Amount	Carrying Amount
Discovery	50%	$2,946	$2,864
Court TV	50%	277	260
GSN	50%	251	240
Other	various	260	249
		$3,734	$3,613

The following table reflects Liberty's share of earnings (losses) of affiliates including nontemporary declines in value:

(Amounts in millions)	2004	2003	2002
Discovery	$84	$ 38	$ (32)
Court TV	17	(1)	(2)
GSN	(1)	—	(6)
QVC	—	107	154
Other	(3)	(99)	(203)
	$97	$ 45	$ (89)

Discovery

Discovery is a global media and entertainment company, that provides original and purchased video programming in the United States and over 160 other countries.

Summarized financial information for Discovery is as follows:

CONSOLIDATED BALANCE SHEETS

(Amounts in millions)	2004	2003
Current assets	$ 835	$ 858
Property and equipment	380	360
Programming rights	1,027	882
Intangible assets	445	467
Other assets	549	627
Total assets	$3,236	$3,194
Current liabilities	$ 885	$1,539
Long term debt	2,498	1,834
Other liabilities	161	213
Mandatorily redeemable equity of subsidiaries	320	410
Stockholders' deficit	(628)	(802)
Total liabilities and equity	$3,236	$3,194

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions)	2004	2003	2002
Revenue	$2,365	$1,995	$1,717
Operating expenses	(846)	(752)	(700)
Selling, general and administrative	(856)	(735)	(638)
Stock compensation	(72)	(74)	(97)
Depreciation and amortization	(129)	(120)	(113)
Gain on sale of patent	22	—	—
Operating income	484	314	169
Interest expense	(167)	(159)	(163)
Other expense	(7)	(17)	(64)
Income tax benefit (expense)	(142)	(75)	10
Net earnings (loss)	$ 168	$ 63	$ (48)

Other

In April 2002, Liberty sold its 40% interest in Telemundo Communications Group for cash proceeds of $679 million, and recognized a gain of $344 million (before related tax expense of $134 million) based upon the difference between the cash proceeds and Liberty's basis in Telemundo, including allocated goodwill of $25 million.

During the years ended December 31, 2003 and 2002, Liberty recorded nontemporary declines in fair value aggregating $71 million and $76 million, respectively, related to certain of its other equity method investments. Such amounts are included in share of losses of affiliates.

Fair Value

2.112

CISCO SYSTEMS, INC. (JUL)

(In millions)	2004	2003
Total current assets	$14,343	$13,437
Investments	10,598	12,167
Property and equipment, net	3,290	3,643
Goodwill	4,198	4,043
Purchased intangible assets, net	325	556
Other assets	2,840	3,261
Total assets	$35,594	$37,107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments

The Company's investments comprise U.S. government notes and bonds; corporate notes, bonds, and asset-backed securities; municipal notes and bonds; and publicly traded equity securities. Investments with original or remaining maturities of more than three months and less than one year are considered to be short-term. These investments are held in the custody of a major financial institution. The specific identification method is used to determine the cost basis of fixed income securities disposed of. The weighted-average method is used to determine the cost basis of publicly traded equity securities disposed of. At July 31, 2004 and July 26, 2003, the Company's investments were classified as available-for-sale. These investments are recorded in the Consolidated Balance Sheets at fair value. Unrealized gains and losses on these investments are included as a separate component of accumulated other comprehensive income, net of tax.

The Company recognizes an impairment charge when the declines in the fair values of its investments below the cost basis are judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

The Company also has investments in privately held companies. These investments are included in other assets in the Consolidated Balance Sheets and are primarily carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values if the Company determines that an impairment charge is required based primarily on the financial condition and near-term prospects of these companies.

Fair Value of Financial Instruments

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, accured compensation, and other accrued liabilities, approximate cost because of their short maturities. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

7. Investments

The following tables summarize the Company's investments (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004				
Fixed income securities:				
U.S. government notes and bonds	$ 4,408	$ 9	$(20)	$ 4,397
Corporate notes, bonds, and asset-backed securities	9,333	14	(42)	9,305
Municipal notes and bonds	710	—	(1)	709
Total fixed income securities	14,451	23	(63)	14,411
Publicly traded equity securities	755	387	(8)	1,134
Total	$15,206	$410	$(71)	$15,545
Reported as:				
Short-term investments				$ 4,947
Investments				10,598
Total				$15,545
2003				
Fixed income securities:				
U.S. government notes and bonds	$ 5,302	$ 68	$(30)	$ 5,340
Corporate notes, bonds, and asset-backed securities	9,978	152	(10)	10,120
Municipal notes and bonds	522	—	—	522
Total fixed income securities	15,802	220	(40)	15,982
Publicly traded equity securities	467	278	—	745
Total	$16,269	$498	$(40)	$16,727
Reported as:				
Short-term investments				$ 4,560
Investments				12,167
Total				$16,727

The following table provides gross realized gains and losses related to the Company's investments (in millions):

	2004	2003	2002
Gross realized gains	$208	$ 339	$ 422
Gross realized losses	(2)	(590)	(1,129)
Total	$206	$(251)	$ (707)

The gross realized losses in fiscal 2004, 2003, and 2002 included charges of $0, $412 million, and $858 million, respectively, related to the impairment of certain publicly traded equity securities. The impairment charges were due to the declines in the fair values of the investments below their cost basis that were judged to be other-than-temporary. The specific identification method is used to determine the cost basis of fixed income securities disposed of. The weighted-average method is used to determine the cost basis of publicly traded equity securities disposed of.

The following table provides the breakdown of the investments with unrealized losses at July 31, 2004 (in millions):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government notes and bonds	$2,859	$(18)	$ 84	$(2)	$2,943	$(20)
Corporate notes, bonds, and asset-backed securities	3,883	(38)	189	(4)	4,072	(42)
Municipal notes and bonds	176	(1)	—	—	176	(1)
Publicly traded equity securities	83	(8)	—	—	83	(8)
Total	$7,001	$(65)	$273	$(6)	$7,274	$(71)

The gross unrealized losses related to fixed income securities were due to changes in interest rates. The gross unrealized losses related to publicly traded equity securities were due to changes in market prices. The Company's management has determined that the gross unrealized losses on its investment securities at July 31, 2004 are temporary in nature. The Company reviews its investments to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Substantially all of the Company's fixed income securities are rated investment grade or better.

The following table summarizes the maturities of the Company's fixed income securities at July 31, 2004 (in millions):

	Amortized Cost	Fair Value
Less than one year	$ 4,951	$ 4,947
Due in 1–2 years	3,138	3,130
Due in 2–5 years	4,088	4,064
Due after 5 years	2,274	2,270
Total	$14,451	$14,411

2.113

TEKTRONIX, INC. (MAY)

(In thousands)	2004	2003
Total current assets	$ 545,030	$ 585,228
Property, plant and equipment, net	105,310	129,757
Long-term marketable investments	463,878	412,090
Deferred tax assets	105,886	144,134
Goodwill, net	79,774	73,736
Other long-term assets	30,825	39,765
Total assets	$1,330,703	$1,384,710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Marketable Investments

Short-term marketable investments include investments with maturities of greater than three months and less than one year. Long-term marketable investments include investments with maturities of greater than one year.

At May 29, 2004 and May 31, 2003, marketable investments were classified as available-for-sale and reported at fair market value with the related unrealized holdings gains and losses excluded from earnings and included, net of deferred income taxes, in Accumulated other comprehensive loss on the Consolidated Balance Sheets. Prior to February 23, 2002, marketable investments, excluding corporate securities, were classified as held-to-maturity and were recorded at their amortized cost. The specific identification method is used to recognize realized gains and losses on the sale of marketable investments.

3 (In Part): Recent Accounting Pronouncements

At the November 12–13, 2003 meeting, the EITF reached a consensus on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The Company adopted the disclosure requirements in fiscal year 2004. At the March 17–18, 2004 meeting, the EITF reached a consensus, which approved an impairment model for debt and equity securities. This consensus will be effective beginning with the second quarter of fiscal year 2005. The Company is currently evaluating the impact of this consensus on the Consolidated Financial Statements.

8 (In Part): Marketable Investments

Marketable investments are recorded at market value with the resulting gains and losses included, net of tax, in Accumulated other comprehensive loss on the Consolidated Balance Sheets. Realized gains and losses on sales of marketable investments were $2.6 million and $2.8 million, $1.8 million and $2.4 million, and $0.7 million and $0.4 million, respectively, for fiscal years 2004, 2003 and 2002.

Short-term marketable investments held at May 29, 2004 consisted of:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Corporate notes and bonds	$46,899	$191	$(118)	$46,972
Asset backed securities	30,657	1	(363)	30,295
Mortgage backed securities	5,358	—	(52)	5,306
U.S. Agency	2,972	2	—	2,974
U.S. Treasuries	5,313	96	—	5,409
Short-term marketable investments	$91,199	$290	$(533)	$90,956

Long-term marketable investments held at May 29, 2004 consisted of:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Corporate notes and bonds	$ 89,562	$ 817	$ (587)	$ 89,792
Asset backed securities	76,052	999	(261)	76,790
Mortgage backed securities	176,266	715	(2,684)	174,297
Federal agency notes and bonds	79,878	155	(962)	79,071
U.S. Treasuries	44,166	—	(238)	43,928
Long-term marketable investments	$465,924	$2,686	$(4,732)	$463,878

Short-term marketable investments held at May 31, 2003 consisted of:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Corporate notes and bonds	$ 32,512	$ 418	$ —	$ 32,930
Asset backed securities	40,495	471	(133)	40,833
Mortgage backed securities	6,343	91	(82)	6,352
U.S. Agency	10,789	324	—	11,113
Federal agency notes and bonds	18,326	104	—	18,430
U.S. Treasuries	227	—	—	227
Short-term marketable investments	$108,692	$1,408	$(215)	$109,885

Long-term marketable investments held at May 31, 2003 consisted of:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Corporate notes and bonds	$ 90,465	$ 2,181	$ —	$ 92,646
Asset backed securities	56,217	2,725	(13)	58,929
Mortgage backed securities	142,649	2,574	(49)	145,174
U.S. Agency	53,239	1,013	—	54,252
Federal agency notes and bonds	24,508	785	—	25,293
U.S. Treasuries	34,817	979	—	35,796
Long-term marketable investments	$401,895	$10,257	$(62)	$412,090

Contractual maturities of long-term marketable investments at May 29, 2004 will be as follows:

(In thousands)	Amortized Cost Basis
After 1 year through 5 years	$289,658
Mortgage backed securities	176,266
	$465,924

The Company reviews investments in debt and equity securities for other than temporary impairment whenever the fair value of an investment is less than amortized cost and evidence indicates that an investments' carrying amount is not recoverable within a reasonable period of time. In the evaluation of whether an impairment is other-than-temporary, the Company considers its ability and intent to hold the investment until the market price recovers, the reasons for the impairment, compliance with the Company's investment policy, the severity and duration of the impairment and expected future performance. Based on this evaluation, no impairment was considered to be other-than-temporary. The following table presents the gross unrealized losses on, and estimated fair value of, the Company's short-term and long-term marketable investments, aggregated by investment category and length of time that individual investments have been in a continuous unrealized loss position, at May 29, 2004:

	12 Months or More		Less Than 12 Months		Total	
(In thousands)	Gross Estimated Fair Value	Unrealized Losses	Gross Estimated Fair Value	Unrealized Losses	Gross Estimated Fair Value	Unrealized Losses
Corporate notes and bonds	$ —	$—	$ 97,330	$ 705	$ 97,330	$ 705
Asset backed securities	3,499	55	43,409	569	46,908	624
Mortage backed securities	544	18	140,489	2,718	141,033	2,736
Federal agency notes and bonds	—	—	75,645	962	75,645	962
U.S. Treasuries	—	—	44,107	238	44,107	238
Total	$4,043	$73	$400,980	$5,192	$405,023	$5,265

Investments in corporate equity securities are classified as available-for-sale and reported at fair market value on the Consolidated Balance Sheets and are included in Other long-term assets. The related unrealized holding gains and losses are excluded from earnings and included, net of tax, in Accumulated other comprehensive loss on the Consolidated Balance Sheets. Corporate equity securities classified as available-for-sale and the related unrealized holding gains at May 29, 2004 and May 31, 2003 were as follows:

(In thousands)	2004	2003
Unamortized cost basis of corporate equity securities	$ 6,178	$ 8,384
Gross unrealized holding gains	7,818	7,707
Fair value of corporate equity securities	$13,996	$16,091

During fiscal year 2004, the Company sold 400,000 shares of common stock of Merix Corporation ("Merix") in connection with a public offering by Merix. Net proceeds from the sale were $9.5 million, which resulted in a net realized gain of $7.3 million.

19 (In Part): Fair Value of Financial Instruments

For cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities and accrued compensation, the carrying amount approximates the fair value because of the immediate or short-term nature of those instruments. Marketable investments are recorded at their fair value based on quoted market prices.

Cost

2.114

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

(Dollars in millions)	2004	2003
Total current assets	$15,211	$18,462
Property, plant and equipment	23,978	24,149
Less: Accumulated depreciation	13,754	14,257
Net property, plant and equipment	10,224	9,892
Goodwill	2,082	1,939
Other intangible assets	2,848	2,986
Investment in affiliates	1,034	1,304
Other assets (Note 18)	4,233	2,456
Total assets	$35,632	$37,039

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Investments in Securities

Marketable debt securities represent investments in fixed and floating rate financial instruments with maturities of twelve months or less from time of purchase. They are classified as held-to-maturity and recorded at amortized cost.

Other assets include long-term investments in securities, which comprise marketable equity securities and other securities and investments for which market values are not readily available. Marketable equity securities are classified as available-for-sale and reported at fair value. Fair value is based on quoted market prices as of the end of the reporting period. Unrealized gains and losses are reported, net of their related tax effects, as a component of Accumulated other comprehensive income (loss) in stockholders' equity until sold. At the time of sale, any gains or losses calculated by the specific identification method are recognized in Other income. Losses are also recognized in income when a decline in market value is deemed to be other than temporary. Other securities and investments for which market values are not readily available are carried at cost (see Note 18).

18 (In Part): Other Assets

	2004	2003
Prepaid pension cost	$2,487	$ 635
Intangible pension asset	35	292
Long-term investments in securities	106	141
Deferred income taxes	1,233	1,054
Miscellaneous	372	334
	$4,233	$2,456

Included within long-term investments in securities are securities for which market values are not readily available. Also included in long-term investments in securities are securities classified as available for sale as follows:

	2004	2003
Cost	$19	$48
Gross unrealized gains	4	6
Gross unrealized losses	(1)	(10)
Fair value	$22	$44

In 2004, the company received proceeds of $12 from the sale of equity securities. This sale resulted in a pretax gain of $10; the cost of the securities sold was determined based on the original purchase price. The company's sales of equity securities in 2003 and 2002 were not material.

The table below discloses the fair value and unrealized losses on investments included in Other assets. The book value of investments held less than 12 months with a temporary impairment is included in Miscellaneous. The book value of investments held 12 months or greater with a temporary impairment is included in Long-term investments in securities.

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 5	$ 1	$—	$—	$ 5	$1
Investments in equity securities carried at cost	$—	$—	$ 7	$ 3	$ 7	$3
Total	$ 5	$ 1	$ 7	$ 3	$12	$4

Investments in Equity Securities Carried at Cost

The aggregate of the company's cost investments totaled $84 at December 31, 2004. One investment in a privately owned company is in an unrealized loss position. The severity and duration of the impairment were reviewed by the company in relation to industry averages. The company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the company does not consider this investment to be other than temporarily impaired at December 31, 2004.

NONCURRENT RECEIVABLES

2.115 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."

2.116 *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. 65 survey companies made 73 fair value disclosures. 12 of those disclosures used market or broker quotes of the noncurrent receivables to determine fair value. 36 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. 42 disclosures presented carrying amounts which approximated fair value of noncurrent receivables. In addition, there were 26 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.

2.117 *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.

2.118 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.

2.119 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.

2.120 *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.

2.121 Table 2-18 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

2.122

TABLE 2-18: NONCURRENT RECEIVABLES

	2004	2003	2002	2001
Caption Title				
Finance receivable	37	22	17	16
Notes receivable	33	21	25	30
Long-term receivables	26	28	44	32
Insurance receivable	17	12	11	11
Receivables from related party	16	13	14	N/C*
Other	39	40	35	33
Receivables combined with other investments, deposits, etc	4	9	5	12
Total Presentations	**172**	**145**	**151**	**134**
Number of Companies				
Presenting noncurrent receivables	150	130	135	116
Not presenting noncurrent receivables	450	470	465	484
Total Companies	**600**	**600**	**600**	**600**

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

2.123

BASSETT FURNITURE INDUSTRIES, INCORPORATED (NOV)

(In thousands)	2004	2003
Total current assets	$102,677	$102,578
Property and equipment, net	40,243	48,800
Investments	73,520	65,151
Retail real estate, net	53,085	32,930
Notes receivable, net	14,642	14,799
Other, net	13,199	15,522
	154,446	128,402
Total assets	$297,366	$279,780

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

2 (In Part): Significant Accounting Policies

Accounts Receivable and Notes Receivable

Substantially all of our trade accounts receivable and notes receivable are due from customers located within the United States. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. Allowances for doubtful accounts were $4,751 and $3,994 at November 27, 2004 and November 29, 2003, respectively. Accounts and notes receivable are generally secured by liens on merchandise sold to licensees.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable, investment securities, cost and equity method investments, accounts payable and long-term debt. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values. The carrying amounts of notes receivable approximate fair value as the effective rates for these instruments are comparable to market rates at year-end.

2.124

NASHUA CORPORATION (DEC)

(In thousands)	2004	2003
Total current assets	$ 65,305	$ 60,788
Plant and equipment:		
Land	1,322	902
Buildings and improvements	31,201	28,920
Machinery and equipment	66,013	62,689
Construction in progress	1,002	875
	99,538	93,386
Accumulated depreciation	(59,693)	(52,609)
	39,845	40,777
Goodwill	31,516	31,471
Intangibles, net of amortization	1,451	1,781
Loans to related parties	957	1,208
Other assets	11,886	15,651
Total assets	$150,960	$151,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Related Parties

Loans to Related Parties

We had loans to our Chief Executive Officer and have a loan to a former owner of Rittenhouse Paper Company and current consultant to Nashua relating to life insurance premiums paid on their behalf. These loans are partially collateralized by the cash surrender value of related life insurance policies and fully covered by the death benefit payable under these policies. These loans do not incur interest and are due upon death, settlement or termination of related life insurance policies. At December 31, 2004 and 2003, loans of $1.0 million and $1.2 million, respectively, are included in other assets in our Consolidated Balance Sheet. Below is a summary of related party loan activity:

(In thousands)	Chief Executive Officer	Other Related Party	Total
Acquired upon acquisition of Rittenhouse Paper Company on April 17, 2000	$ 160	$195	$ 355
Net premiums paid in 2001	154	214	368
Net premiums paid in 2002	—	250	250
Net premiums paid in 2003	—	235	235
Net premiums paid in 2004	—	63	63
Settlement of obligation (see below)	(314)	—	(314)
Balance at December 31, 2004	$ 0	$957	$ 957
Collateralized cash surrender value of life insurance policies	$ 0	$813	$ 813

In the fourth quarter of 2003, we incurred a one-time $330,000 charge related to the settlement of future obligations under an employment contract in which we were required to fund a split dollar life insurance policy on behalf of our Chief Executive Officer, Andrew Albert. As part of the agreement, Mr. Albert repaid $313,679 for insurance premiums previously paid by us.

2.125

NOVELL, INC. (OCT)

(Amounts in thousands)	2004	2003
Total current assets	$1,534,934	$1,030,553
Property, plant and equipment, net	231,468	255,526
Long-term investments	55,986	50,948
Goodwill	391,088	213,300
Intangible assets, net	48,616	10,800
Other assets	29,456	6,526
Total assets	$2,291,548	$1,567,653

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, and senior convertible debentures. The carrying amounts of our cash equivalents and short-term investments, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. Long-term investments are accounted for initially at cost. The Company periodically reviews the realizability of each 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. As of October 31, 2004 and 2003, we did not hold any publicly-traded long-term equity securities. Our long-term notes receivable and senior convertible debentures have interest rates that approximate current market rates; therefore the carrying value of the both approximate fair value.

E. Notes Receivable

In October 2004, we completed the sale of three buildings we owned in Orem, Utah for $12.8 million, including a $10 million note receivable. The note is secured by the buildings and land as well as a personal guarantee and letters of credit. The note bears interest at 5.50375% for the first year and LIBOR plus 3% thereafter through the maturity date. Principal payments on the note are to be made periodically with a final lump sum payment on the maturity date in October 2009. As of October 31, 2004, there was $0.1 million recorded in other current assets and $9.8 million recorded in other assets.

INTANGIBLE ASSETS

2.126 APB Opinion No. 17, *Intangible Assets*, sets forth requirements as to accounting for intangible assets. *APB Opinion No. 17* stipulates that all intangible assets acquired after October 31, 1970 or recognized in business combinations initiated after October 31, 1970 be amortized over a period not to exceed 40 years and that "financial statements should disclose the method and period of amortization."

2.127 SFAS No. 142, *Goodwill and Other Intangible Assets*, supersedes *APB Opinion No. 17* as to intangible assets acquired on or before June 30, 2001. *APB Opinion No. 17* presumes that goodwill acquired as a result of a purchase method business combination and all other intangible assets are wasting assets subject to amortization. The Opinion also mandated an arbitrary ceiling of 40 years for that amortization. *SFAS No. 142* does not presume that all intangible assets are wasting assets. Instead, goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. In addition, the Standard provides specific guidance on how to determine and measure goodwill impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. *SFAS No. 142* requires additional disclosures including information about carrying amounts of goodwill and other intangible assets, and estimates as to future intangible asset amortization expense.

2.128 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 2004, 134 survey companies disclosed an intangible pension asset.

2.129 Table 2-20 summarizes the amortization periods used by the survey companies to amortize intangible assets that have finite useful lives.

2.130 Examples of intangible asset presentations and disclosures follow.

2.131

TABLE 2-19: INTANGIBLE ASSETS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Goodwill recognized in a business combination	510	506	505	513
Trademarks, brand names, copyrights	260	226	165	132
Customer lists/ relationships	195	157	121	52
Patents, patent rights	151	136	130	73
Technology	125	114	95	52
Licenses, franchises, memberships	101	92	60	48
Noncompete covenants	85	86	76	29
Other—described	156	136	127	73

2.132

TABLE 2-20: AMORTIZATION PERIOD—2004

			Number of Companies			
Period	**Trademarks**	**Patents**	**Lists**	**Technology**	**Licenses**	**Noncompete**
Exceeding 40	1	1	—	1	1	—
31–40	7	—	3	1	—	—
21–30	14	4	6	2	4	—
11–20	40	46	57	32	20	11
Not exceeding 10	53	38	83	56	21	51
Legal/estimated life	42	58	41	31	28	20
Other	10	4	2	2	1	3

Goodwill

2.133

BURLINGTON RESOURCES INC. (DEC)

(In millions)	2004	2003
Total current assets	$ 3,455	$ 1,517
Oil and gas properties (successful efforts method)	17,943	15,962
Other properties	1,544	1,381
	19,487	17,343
Less: accumulated depreciation, depletion and amortization	8,454	7,032
Properties—net	11,033	10,311
Goodwill	1,054	982
Other assets	202	185
Total assets	$15,744	$12,995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, which requires the Company to test goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, rather than amortize.

4. Goodwill

The entire goodwill balance of $1,054 million at December 31, 2004, which is not deductible for tax purposes, is related to the Company's acquisition of Hunter in December 2001. With the acquisition of Hunter, the Company gained Hunter's significant interest in Canada's Deep Basin, North America's third-largest natural gas field, increased its critical mass and enhanced its position as a leading North American natural gas producer. The Company also obtained the exploration expertise of Hunter's workforce, gained additional cost optimization, increased purchasing power and gained greater marketing flexibility in optimizing sales and accessing key market information. The goodwill was assigned to the Company's Canadian reporting unit which includes all of the Company's Canadian subsidiaries.

The provisions of SFAS No. 142 require that a two-step impairment test be performed annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step of the test for impairment compares the book value of the Company's reporting unit to its estimated fair value. The second step of the goodwill impairment test, which is only required when the net book value of the reporting unit exceeds the fair value, compares the implied fair value of goodwill to its book value to determine if an impairment is required.

The Company performed step one of its annual goodwill impairment test in the fourth quarter of 2004 and determined that the fair value of the Company's Canadian reporting unit exceeded its net book value as of September 30, 2004. Therefore, step two was not required.

The fair value of the Company's Canadian reporting unit was determined using a combination of the income approach and the market approach. Under the income approach, the Company estimated the fair value of the reporting unit based on the prsent value of expected future cash flows. Under the market approach, the Company estimated the fair value based on market multiples of reserves and production for comparable companies as well as recent comparable transactions.

The income approach is dependent on a number of factors including estimates of forecasted revenue and costs, proved reserves, as well as the success of future exploration for and development of unproved reserves, appropriate discount rates and other variables. Downward revisions of estimated reserve quantities, increases in future cost estimates, divestiture of a significant component of the reporting unit, continued weakening of the U.S. dollar, or depressed natural gas, NGLs and crude oil prices could lead to an impairment of all or a portion of goodwill in future periods. In the market approach, the Company makes certain judgments about the selection of comparable companies, comparable recent company and asset transactions and transaction premiums. Although the Company based its fair value estimate on assumptions it believes to be reasonable, those assumptions are inherently unpredictable and uncertain. In 2004, the Company used a professional valuation services firm to assist in preparing its annual valuation of goodwill.

The following table reflects the changes in the carrying amount of goodwill during the year as it relates to the Canadian reporting unit.

(In millions)	
December 31, 2003	$ 982
Changes in foreign exchange rates during the period	72
December 31, 2004	$1,054

2.134

OFFICE DEPOT, INC. (DEC)

(In thousands)	2004	2003
Total current assets	$3,916,171	$3,576,728
Property and equipment, net	1,463,028	1,293,755
Goodwill	1,049,669	1,004,122
Other assets	338,483	320,074
Total assets	$6,767,351	$6,194,679

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets (In Part)

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. Accounting rules require that we test at least annually for possible goodwill impairment. We perform our test in the fourth quarter of each year using a discounted cash flow analysis that requires that certain assumptions and estimates be made regarding industry economic factors and future profitability. As a result of the 2004 impairment analysis, we determined that the goodwill balance existing in our Japanese reporting unit was impaired. Accordingly, we recorded an impairment charge of approximately $11.5 million which is included in store and warehouse operating and selling expenses in the Consolidated Statements of Earnings. No other indication of goodwill impairment was identified.

Note F (In Part): Goodwill and Other Intangible Assets

The components of goodwill by segments are listed below:

(Dollars in thousands)	2004	2003
Goodwill:		
North American Retail Division	$ 1,831	$ 1,739
Business Services Group	229,950	229,950
International Group	817,888	772,433
Total goodwill	$1,049,669	$1,004,122

The net increase in goodwill reflects an increase of $66.7 million from changes in foreign currency exchange rates, an increase of $9.3 million related to the purchase of a business in Hungary, and the net impact of adjustments to integration plans and values estimated related to the acquisition of Guilbert, partially offset by an $11.5 million impairment charge.

As a result of our fourth quarter 2004 impairment analysis, we determined that the goodwill balance existing in our Japanese reporting unit was impaired. In recent years, several initiatives were put in place to enhance the business, including streamlining to one brand, consolidating warehouses, and improving retail assortment and layout. However, the anticipated improvements have not generated the expected benefits and we recorded an impairment charge of approximately $11.5 million to reduce the carrying value of the goodwill to zero. This charge is included within store and warehouse operating and selling expenses in the Consolidated Statements of Earnings.

Trademarks

2.135

FURNITURE BRANDS INTERNATIONAL, INC. (DEC)

(Dollars in thousands)	2004	2003
Total current assets	$ 908,125	$ 886,052
Property, plant and equipment:		
Land	20,711	21,742
Buildings and improvements	258,493	251,814
Machinery and equipment	403,392	400,375
	682,596	673,931
Less accumulated depreciation	397,623	363,368
Net property, plant and equipment	284,973	310,563
Goodwill	183,097	183,789
Other intangible assets (Note 5)	169,671	169,671
Other assets	41,893	28,184
Total assets	$1,587,759	$1,578,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

2 (In Part): Significant Accounting Policies

Intangible Assets

Intangible assets consist of goodwill and trademarks. Effective with the Company's adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment. Prior to adoption of SFAS No. 142, goodwill and trademarks were amortized on a straight-line basis over 20 to 40-year periods. Intangible assets are reviewed for impairment annually or whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if future cash flows of the related assets are less than their carrying values.

5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the following:

	2004	2003
Goodwill	$265,835	$266,527
Less: accumulated amortization	82,738	82,738
Goodwill	$183,097	$183,789
Trademarks and trade names	$206,179	$206,179
Less: accumulated amortization	36,508	36,508
Other intangible assets	$169,671	$169,671

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested annually for impairment or whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. No impairment was recorded in 2004 or 2003. The Company's other intangible assets consist of trademarks and trade names all having indefinite lives.

2.136

HERSHEY FOODS CORPORATION (DEC)

(In thousands of dollars)	2004	2003
Total current assets	$1,182,441	$1,131,569
Property, plant and equipment, net	1,682,698	1,661,939
Goodwill	463,947	388,960
Other intangibles	125,233	38,511
Other assets	343,212	361,561
Total assets	$3,797,531	$3,582,540

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Other intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. The useful lives of trademarks were determined to be indefinite and, therefore, these assets are not being amortized. Customer-related intangible assets are being amortized over their estimated useful lives of approximately ten years. Patents are being amortized over their remaining legal lives of approximately sixteen years.

The impairment evaluation for goodwill is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The impairment evaluation of the carrying amount of intangible assets with indefinite lives is conducted annually, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit 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.

17 (In Part): Supplemental Balance Sheet Information

Goodwill and Other Intangible Assets

Goodwill and intangible assets were as follows:

(In thousands of dollars)	2004	2003
Unamortized intangible assets:		
Goodwill	$463,947	$388,960
Trademarks	$100,335	$ 31,593
Amortized intangible assets, gross:		
Customer-related	18,567	—
Patents	8,317	8,317
Total other intangible assets, gross	127,219	39,910
Accumulated amortization	(1,986)	(1,399)
Other intangibles	$125,233	$ 38,511

Goodwill increased $82.9 million as a result of the acquisition of the Grupo Lorena and Mauna Loa businesses and $5.1 million as a result of currency translation adjustments. These increases were partially offset by a $12.6 million adjustment to goodwill as a result of the adjustment to the Federal and state tax contingencies. The increases in trademarks and customer-related intangible assets were also due to the Grupo Lorena and Mauna Loa acquisitions. The useful lives of trademarks were determined to be indefinite and, therefore, these assets are not being amortized. Customer-related intangible assets are being amortized over their estimated useful lives of approximately ten years. Patents are being amortized over their remaining legal lives of approximately sixteen years. Total amortization expense for other intangible assets was $.6 million, $.5 million and $.5 million in 2004, 2003 and 2002, respectively. The estimated aggregate amortization expense will be approximately $2.3 million on an annual basis over the next five years based upon the preliminary purchase price allocations as of December 31, 2004.

Customer Lists/Relationships

2.137

ECOLAB INC. (DEC)

(Thousands)	2004	2003	2002
Total current assets	$1,279,066	$1,150,340	$1,015,937
Property, plant and equipment, net	834,730	736,797	680,265
Goodwill	991,811	797,211	695,700
Other intangible assets, net	229,095	203,859	188,670
Other assets, net	381,472	340,711	285,335
Total assets	$3,716,174	$3,228,918	$2,865,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangible Assets (In Part)

Goodwill and other intangible assets arise principally from business acquisitions. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Other intangible assets include primarily customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. The weighted-average useful life of other intangible assets was 13 years, 12 years and 15 years as of December 31, 2004, 2003 and 2002, respectively.

The weighted-average useful life by class at December 31, 2004 is as follows:

	Number of Years
Customer relationships	11
Intellectual property	15
Trademarks	20
Other	5

The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the company in each reporting period. Total amortization expense related to other intangible assets during the years ended December 31, 2004, 2003 and 2002 was approximately $21.7 million, $21.2 million and $16.9 million, respectively. As of December 31, 2004, future estimated amortization expense related to amortizable other identifiable intangible assets will be:

(Thousands)	
2005	$24,473
2006	23,704
2007	23,347
2008	23,125
2009	21,634

Note 7 (In Part): Balance Sheet Information

(Thousands)	2004	2003	2002
Other intangible assets, net cost			
Customer relationships	$189,572	$153,479	$120,324
Intellectual property	38,130	77,793	71,104
Trademarks	62,874	52,283	50,308
Other intangibles	17,104	16,012	13,502
	307,680	299,567	255,238
Accumulated amortization			
Customer relationships	(43,798)	(27,565)	(9,238)
Intellectual property	(7,726)	(45,809)	(39,641)
Trademarks	(12,764)	(9,313)	(5,947)
Other intangibles	(14,297)	(13,021)	(11,742)
Total	$229,095	$203,859	$188,670

Patents

2.138

PERKINELMER, INC. (DEC)

(In thousands)	2004	2003
Total current assets	$ 747,630	$ 766,300
Property, plant and equipment:		
At cost	631,693	618,651
Accumulated depreciation	(395,777)	(352,290)
Property, plant and equipment, net	235,916	266,361
Marketable securities and investments	10,479	10,874
Intangible assets, net	397,445	424,703
Goodwill	1,073,869	1,034,911
Other assets	110,016	102,658
Long-term assets of discontinued operations	152	1,920
Total assets	$2,575,507	$2,607,727

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Nature of Operations and Accounting Policies

Intangible Assets

The Company's intangible assets consist of (1) goodwill, which is not being amortized; (2) indefinite lived intangibles, which consist of certain trademarks and trade names that are not subject to amortization; and (3) amortizing intangibles, which consist of patents, and purchased technologies, which are being amortized over their useful lives. All intangible assets are subject to impairment tests on an annual or periodic basis.

Note 12 describes the impact of accounting for the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Intangible Assets*, and the annual impairment methodology that the Company employs on the later of January 1 or the first day of each fiscal year in calculating the recoverability of goodwill. This same impairment test will be performed at other times during the course of the year should an event occur which suggests that the recoverability of goodwill should be challenged. Non-amortizing intangibles are also subject to an annual impairment test. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss in an amount equal to that excess is recognized. Amortizing intangibles are currently evaluated for impairment using the methodology set forth in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Recoverability of these assets is assessed only when events have occurred that may give rise to an impairment. When a potential impairment has been identified, forecasted undiscounted net cash flows of the operations to which the asset relates are compared to the current carrying value of the long-lived assets present in that operation. If such cash flows are less than such carrying amounts, long-lived assets, including such intangibles, are written down to their respective fair values.

Note 12 (In Part): Goodwill and Intangible Assets

Intangible asset balances at January 2, 2005 by category and by business segment were as follows:

(In thousands)	Life and Analytical Sciences	Optoelectronics	Fluid Sciences	Consolidated
Patents	$ 79,379	$12,400	$ 4,000	$ 95,779
Less: Accumulated amortization	(25,842)	(7,548)	(4,000)	(37,390)
Net patents	53,537	4,852	—	58,389
Licenses	48,031	1,408	—	49,439
Less: Accumulated amortization	(16,401)	(1,408)	—	(17,809)
Net licenses	31,630	—	—	31,630
Core technology	200,567	—	8,125	208,692
Less: Accumulated amortization	(57,599)	—	(2,700)	(60,299)
Net core technology	142,968	—	5,425	148,393
Net amortizable intangible assets	228,135	4,852	5,425	238,412
Non-amortizing intangible assets	159,033	—	—	159,033
Totals	$387,168	$ 4,852	$ 5,425	$397,445

Intangible asset balances at December 28, 2003 by business segment were as follows:

(In thousands)	Life and Analytical Sciences	Optoelectronics	Fluid Sciences	Consolidated
Patents	$ 78,860	$12,400	$ 4,000	$ 95,260
Less: Accumulated amortization	(17,290)	(6,322)	(4,000)	(27,612)
Net patents	61,570	6,078	—	67,648
Licenses	47,087	1,403	—	48,490
Less: Accumulated amortization	(11,027)	(1,403)	—	(12,430)
Net licenses	36,060	—	—	36,060
Core technology	200,567	—	8,125	208,692
Less: Accumulated amortization	(44,910)	—	(1,820)	(46,730)
Net core technology	155,657	—	6,305	161,962
Net amortizable intangible assets	253,287	6,078	6,305	265,670
Non-amortizing intangible assets	159,033	—	—	159,033
Totals	$412,320	$ 6,078	$ 6,305	$424,703

Technology

2.139

BECTON, DICKINSON AND COMPANY (SEP)

(Thousands of dollars)	2004	2003
Total current assets	$2,641,334	$2,503,459
Property, plant and equipment, net	1,880,997	1,831,791
Goodwill, net	473,211	445,854
Core and developed technology, net	188,541	193,238
Other intangibles, net	93,466	102,538
Capitalized software, net	283,918	305,536
Other	191,112	189,837
Total assets	$5,752,579	$5,572,253

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Intangibles

Goodwill is reviewed annually for impairment in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," as discussed in Note 3. In reviewing goodwill for impairment, potential impairment is identified by comparing the estimated fair value of a reporting unit with its carrying value. Core and developed technology continues to be amortized over periods ranging from 15 to 20 years, using the straight-line method. Both goodwill and core and developed technology arise from acquisitions. Other intangibles with finite useful lives, which include patents, are amortized over periods principally ranging from two to 40 years, using the straight-line method. These intangibles, including core and developed technology, are periodically reviewed when impairment indicators are present to assess recoverability from future operations using undiscounted cash flows in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." To the extent carrying value exceeds fair value, an impairment loss is recognized in operating results. Other intangibles also include certain trademarks that are considered to have indefinite lives, as they are expected to generate cash flows indefinitely. Therefore, in accordance with the provisions of SFAS No. 142, these trademarks are no longer amortized but are reviewed annually for impairment. See Note 3 for further discussion.

3. Goodwill and Other Intangible Assets

Intangible assets at September 30 consisted of:

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core and developed technology	$297,342	$108,801	$284,432	$ 91,194
Patents, trademarks, & other	307,376	229,047	302,275	214,874
Total	$604,718	$337,848	$586,707	$306,068
Unamortized intangible assets				
Goodwill[(A)]	$473,211		$445,854	
Trademarks[(B)]	15,137		15,137	
Total	$488,348		$460,991	

[(A)] Net of accumulated amortization of $176,058 and $172,909 in 2004 and 2003, respectively.
[(B)] Net of accumulated amortization of $6,175 in 2004 and 2003.

The change in the carrying amount of goodwill for the year ended September 30, 2004 includes $17,341 related to goodwill recorded in the acquisition of Atto Bioscience, Inc. as well as foreign currency translation adjustments.

Intangible amortization expense was $31,467, $31,413 and $32,778 in 2004, 2003 and 2002, respectively. The estimated aggregate amortization expense for the fiscal years ending September 30, 2005 to 2009 are as follows: 2005–$31,500; 2006–$28,700; 2007–$28,300; 2008–$27,100; 2009–$25,600.

During the third quarter of fiscal 2003, the Company decided to discontinue the development of certain products and product applications associated with the *BD IMAGN* instrument platform in the Biosciences segment. As a result, the Company recorded an impairment loss of $26,717 in cost of products sold. This loss included the write down of $25,230 of core and developed technology, $960 of indefinite-lived trademarks, and $527 of licenses. The impairment loss was calculated in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." During 2003, additional asset impairment losses on indefinite-lived trademarks amounted to $1,524 and are included in the loss from discontinued operations.

Licenses and Franchises

2.140

COCA-COLA ENTERPRISES INC. (DEC)

(In millions)	2004	2003
Total current assets	$ 3,264	$ 3,000
Property, plant, and equipment, net	6,913	6,794
Goodwill	578	578
Franchise license intangible assets, net	14,517	14,171
Customer distribution rights and other noncurrent assets, net	1,082	1,157
Total assets	$26,354	$25,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Goodwill and Franchise License Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), we do not amortize our goodwill and franchise license intangible assets. Instead, these assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate they may be impaired. We perform our impairment tests of goodwill and franchise license intangible assets at the North American and European group levels, our reporting units.

The goodwill asset impairment test involves comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This step compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. For franchise license intangible assets, the impairment test involves comparing the estimated fair value of franchise license intangible assets for a reporting unit, as determined using discounted future cash flows, to its carrying amount to determine if a write-down to fair value is required. At October 29, 2004, we performed our annual impairment tests of goodwill and franchise license intangible assets. The results indicated that the fair values of our goodwill and franchise license intangible assets exceed their carrying amounts and, therefore, the assets are not impaired.

The following table summarizes the net carrying amounts of our franchise license intangible assets as of December 31, 2004 and 2003 (in millions):

	2004	2003
North America	$10,593	$10,488
Europe	3,924	3,683
Franchise license intangible assets, net	$14,517	$14,171

Our franchise license agreements contain performance requirements and convey to the licensee the rights to distribute and sell products of the licensor within specified territories. Our domestic cola franchise license agreements with TCCC do not expire, reflecting a long and ongoing relationship. Our agreements with TCCC covering our United States non-cola, European, and Canadian operations are periodically renewable. TCCC does not grant perpetual franchise license intangible rights outside the United States; however, these agreements can be renewed for additional terms at our request with minimal cost. We believe and expect these and other renewable licensor agreements will be renewed at each expiration date and, therefore, are essentially perpetual. We have never had a franchise license agreement with TCCC terminated due to nonperformance of the terms of the agreement or due to a decision by TCCC to terminate an agreement at the expiration of a term. After evaluating the renewal provisions of our franchise license agreements and our mutually beneficial relationship with TCCC, we have assigned an indefinite life to all of our franchise license intangible assets.

2.141

JUNO LIGHTING, INC. (NOV)

(In thousands)	2004	2003
Total current assets	$ 75,922	$ 67,948
Property and equipment:		
Land	7,445	7,381
Building and improvements	34,244	33,898
Tools and dies	14,505	13,464
Machinery and equipment	9,150	8,477
Computer equipment	9,862	9,267
Office furniture and equipment	3,788	3,646
	78,994	76,133
Less: accumulated depreciation	(38,792)	(34,991)
Net property and equipment	40,202	41,142
Goodwill	18,690	15,083
Intangible assets, net of accumulated amortization of $1,796 and $7,002	5,125	7,546
Other assets	419	245
Total assets	$140,358	$131,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets

In accordance with SFAS 142, intangible assets considered to have finite useful lives continue to be charged to expense through amortization as follows:

	Useful Life	Amortization Method
License technology	20 years	Straight-line
Deferred financing costs	6 years	Effective Interest
Patents and trademarks	13–25 years	Straight-line

The Company performs an impairment test for these intangible assets whenever events or changes in circumstances indicate the carrying amount of any asset may not be recoverable. Impairment, if any, is calculated as the excess of the carrying value of the asset over its fair value and is charged to expense when discovered. No impairment was recorded for the three years ended November 30, 2004. The fair value of the asset is estimated based on its discounted future cash flows.

Note 6. Intangible Assets

Intangible assets consist of the following:

	2004			2003		
(In thousands)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
License technology	$3,220	$ 617	$2,603	$ 3,220	$ 456	$2,764
Deferred financing costs	2,716	327	2,389	10,343	5,728	4,617
Patents and trademarks	985	852	133	985	818	165
Total	$6,921	$1,796	$5,125	$14,548	$7,002	$7,546

The license technology relates to the rights to certain intellectual property acquired by the Company pursuant to a license agreement dated in 2001.

Deferred financing costs relate to costs incurred by the Company associated with its credit arrangements. The Company incurred $2,716,000 to re-finance its long-term debt with Wachovia in 2004, see Note 8. As part of this refinancing the Company recorded a charge against income for $3,965,000 of unamortized deferred financing costs incurred from its long term credit facility originated in 1999.

Patents and trademarks relate to various intellectual property acquired pursuant to various business acquisitions.

Amortization expense totaled $1,173,000, $1,497,000, and $1,497,000, for fiscal 2004, 2003 and 2002, respectively.

The amounts of intangible assets amortization that will be expensed over the next five years are as follows:

(In thousands)	
2005	$ 915
2006	774
2007	644
2008	509
2009	367
Thereafter	1,916
Total	$5,125

Covenants Not to Compete

2.142

WASTE MANAGEMENT, INC. (DEC)

(In millions)	2004	2003
Total current assets	$ 2,819	$ 2,360
Property and equipment, net of accumulated depreciation and amortization of $10,827 and $9,553, respectively	11,476	11,411
Goodwill	5,301	5,220
Other intangible assets, net	152	156
Other assets	1,157	1,235
Total assets	$20,905	$20,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

Goodwill is the excess of our purchase cost over the fair value of the net assets of acquired businesses. All amortization of goodwill ceased January 1, 2002 in accordance with SFAS No. 142, *Accounting for Goodwill and Other Intangible Assets*. For discussion regarding the reclassification made to prior year's balance, refer to Note 2.

Other intangible assets consist primarily of customer contracts, customer lists, covenants not-to-compete, licenses and permits (other than landfill permits, as all landfill related intangible assets are combined with landfill tangible assets and amortized using our landfill amortization policy). Other intangible assets are recorded at cost and are amortized using either a 150% declining balance approach or on a straight-line basis as we determine appropriate. Customer contracts and customer lists are generally amortized over seven to ten years. Covenants not-to-compete are amortized over the term of the noncompete covenant, which is generally two to five years. Licenses, permits and other contracts are amortized over the definitive terms of the related agreements. If the underlying agreement does not contain definitive terms and the useful life is determined to be indefinite, the asset is not amortized.

6 (In Part): Goodwill and Other Intangible Assets

Our other intangible assets as of December 31, 2004 and 2003 were comprised of the following (in millions):

	Customer Contracts and Customer Lists	Covenants Not-to-Compete	Licenses, Permits and Other	Total
December 31, 2004				
Intangible assets	$151	$ 70	$60	$ 281
Less accumulated amortization	(85)	(35)	(9)	(129)
	$ 66	$ 35	$51	$ 152
December 31, 2003				
Intangible assets	$167	$ 86	$51	$ 304
Less accumulated amortization	(90)	(51)	(7)	(148)
	$ 77	$ 35	$44	$ 156

Landfill operating permits are not presented above and are recognized on a combined basis with other landfill assets and amortized using our landfill amortization method. Amortization expense for other intangible assets was approximately $38 million for both 2004 and 2003 and was approximately $35 million for 2002. At December 31, 2004, we have approximately $5 million of other intangible assets that are not subject to amortization. The intangible asset amortization expense estimated as of December 31, 2004, for the five years following 2004 is as follows (in millions):

2005	2006	2007	2008	2009
$28	$21	$17	$13	$10

Contracts

2.143

COMPUTER SCIENCES CORPORATION (MAR)

(Dollars in millions)	2004	2003
Total current assets	$ 4,867.2	$ 4,088.1
Investments and other assets:		
Software, net of accumulated amortization of $543.3 (2004) and $417.3 (2003)	403.2	355.6
Outsourcing contract costs, net of accumulated amortization of $771.8 (2004) and $579.5 (2003) (Note 4)	1,131.8	923.5
Goodwill, net of accumulated amoritization of $329.0 (2004) and $308.7 (2003)	2,604.8	2,507.3
Other assets	618.6	571.1
Total investments and other assets	4,758.4	4,357.5
Property and equipment—at cost:		
Land, buildings and leasehold improvements	876.6	823.3
Computers and related equipment	3,729.1	2,956.2
Furniture and other equipment	424.2	364.0
	5,029.9	4,143.5
Less accumulated depreciation and amortization	2,851.5	2,155.9
Property and equipment, net	2,178.4	1,987.6
Total assets	$11,804.0	$10,433.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Outsourcing Contract Costs

Costs on outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed over the contract life. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities. Such capitalized costs can be separated into two principal categories: contract acquisition costs and transition/set-up costs. The primary types of costs that may be capitalized include labor and related fringe, subcontractor costs, travel costs, and asset premiums.

The first principal category, contract acquisition costs, consists mainly of due diligence activities after competitive selection and premiums paid. Premiums are amounts paid to clients in excess of the fair market value of acquired assets. Fixed assets acquired in connection with outsourcing transactions are capitalized and depreciated consistent with fixed asset policies described above. Amounts paid to clients in excess of the fair market value of acquired property and equipment (premiums) are capitalized as outsourcing contract costs and amortized over the contract life. The amortization of such outsourcing contract cost premiums is accounted for as a reduction in revenue, as described above.

The second principal category of capitalized outsourcing costs is transition/set-up costs. Such costs are primarily associated with installation of systems and processes.

In the event indications exist that an outsourcing contract cost balance related to a particular contract may be impaired, undiscounted estimated cash flows of the contract are projected over its remaining term, and compared to the unamortized outsourcing contract cost balance. If the projected cash flows are not adequate to recover the unamortized cost balance, the balance would be adjusted to equal the contract's fair value in the period such a determination is made. The primary indicator used to determine when impairment testing should be performed is when a contract is materially underperforming, or is expected to materially underperform in the future, as compared to the bid model that was developed as part of the original proposal process and subsequent annual budgets.

Terminations of outsourcing contracts, including transfers either back to the client or to another I/T provider, prior to the end of their committed contract terms are infrequent due to the complex transition of personnel, assets, methodologies, and processes involved with outsourcing transactions. In the event of an early termination, the Company and the client, pursuant to certain contractual provisions, engage in discussions to determine the recovery of unamortized contract costs, lost profits, transfer of personnel, rights to implemented systems and processes, as well as other matters.

Note 4 (In Part): Other Intangible Assets

A summary of amortizable intangible assets as of April 2, 2004 and March 28, 2003 is as follows:

	Gross Carrying Value	Accumulated Amortization	Net
2004			
Software	$ 946.5	$ 543.3	$ 403.2
Outsourcing contract costs	1,903.6	771.8	1,131.8
Customer and other intangible assets	226.5	76.0	150.5
Total intangible assets	$3,076.6	$1,391.1	$1,685.5
2003			
Software	$ 772.9	$ 417.3	$ 355.6
Outsourcing contract costs	1,503.0	579.5	923.5
Customer and other intangible assets	252.1	53.9	198.2
Total intangible assets	$2,528.0	$1,050.7	$1,477.3

Amortization (including reduction of revenues as described in Note 1) related to intangible assets was $352.9, $297.1, and $248.6 for the years ended April 2, 2004, March 28, 2003 and March 29, 2002 respectively. Estimated amortization related to intangible assets at April 2, 2004 for each of the subsequent five years, fiscal 2005 through fiscal 2009, is as follows: $347, $301, $263, $202 and $167 respectively.

OTHER NONCURRENT ASSETS

2.144 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.

2.145

TABLE 2-21: OTHER NONCURRENT ASSETS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Deferred income taxes	237	212	195	196
Prepaid pension costs	151	147	146	126
Software	132	124	128	105
Derivatives	88	54	61	34
Segregated cash or securities	75	61	69	49
Debt issue costs	69	57	64	53
Property held for sale	52	49	43	24
Cash surrender value of life insurance	40	31	33	32
Contracts	16	8	13	9
Assets leased to others	12	11	16	10
Estimated insurance recoveries	7	8	9	6
Assets of nonhomogeneous operations	7	3	6	12
Other identified noncurrent assets	66	53	59	61

Deferred Income Taxes

2.146

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	2004	2003
Total current assets	$14,801	$11,997
Property, plant and equipment, net	5,765	5,712
Goodwill	4,905	4,836
Other intangible assets, net	1,866	1,732
Deferred income taxes, net of valuation allowances	1,129	1,234
Other assets	1,969	1,937
Total assets	$30,435	$27,448

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

As of December 31, 2004, the Company had approximately $16.9 billion of undistributed earnings of foreign subsidiaries. The Company accrued a provision for $575 million of estimated deferre taxes in the fourth quarter of 2004 in anticipation of repatriating approximately $9 billion of these earnings in 2005 pursuant to the American Jobs Creation Act of 2004 (AJCA). Taxes were not provided on the balance of undistributed earnings of approximately $7.9 billion, as the Company has invested or expects to invest these undistributed earnings permanently offshore. If in the future these earnings are repatriated to the United States, or if the Company determines such earnings will be remitted in the foreseeable future, additional tax provisions would be required. Due to complexities in the tax laws and the assumptions that would have to be made, it is not practicable to estimate the amounts of income taxes that would have to be provided.

The AJCA provides for a temporary 85 percent dividends received deduction for certain cash distributions of the earnings of foreign subsidiaries. The deduction would result in a federal tax rate of approximately 5.25% on the repatriated earnings (assuming a marginal federal tax rate of 35% on those earnings). To qualify for the deduction, the repatriated earnings must be reinvested in the United States pursuant to a domestic reinvestment plan approved by a company's chief executive officer and by its board of directors. In January 2005, the Department of Treasury issued guidelines for permitted investments under the plan. The Company expects to meet the requirements and criteria to qualify for the deduction. However, several provisions in the AJCA require further clarification which may be addressed in the coming months by the Treasury or Congress. The Company's estimate of the tax cost related to the repatriation at December 31, 2004 was based on tax laws then in effect. To the extent the tax laws and guidance changes, the estimate will be revised. The Company's estimate may also be revised as a result of any changes in the Company's factual assumptions that may occur.

Under the guidance of the Financial Accounting Standards Board (FASB), Staff Position (FSP) No. 109-1, *Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, this deduction will be treated as a "special deduction" as described in Statement of Financial Accounting Standards (SFAS) No. 109. As such, the special deduction will not affect deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's tax return.

The Company establishes liabilities for possible assessments by tax authorities resulting from known tax exposures. Such amounts represent a reasonable provision for taxes ultimately expected to be paid, and may need to be adjusted over time as more information becomes known.

Note 8 (In Part): Income Taxes

The components of current and non-current deferred income tax assets (liabilities) were:

(Dollars in millions)	2004	2003
Acquired in-process research and development	$1,156	$1,253
Intercompany profit and other inventory items	274	360
Foreign tax credit carryforward	801	425
Deferred income	194	88
Alternative minimum tax and research and development credit carryforward	89	76
Charitable contribution carryforward	135	35
State tax net operating loss carryforward	194	191
Foreign net operating loss and credit carryforward	277	193
Postretirement and pension benefits	(213)	(188)
Depreciation	(332)	(316)
Deferred foreign currency gain/loss	120	121
Anticipated dividend repatriation under AJCA	(575)	—
Other, net	100	56
	2,220	2,294
Valuation allowance	(507)	(368)
Deferred tax assets, net	$1,713	$1,926
Recognized as:		
Deferred income taxes—current	$ 805	$ 864
Deferred income taxes—non-current	1,129	1,234
U.S. and foreign income taxes payable	18	17
Other liabilities—non-current	203	155
Total	$1,713	$1,926

The valuation allowance of $507 million at December 31, 2004 relates to $56 million of foreign and state net deferred tax assets, $334 million of foreign and state net operating loss and tax credit carryforwards, and $117 million of charitable contribution carryforwards that the Company currently believes are not likely to be realized.

Income taxes paid during the year were $822 million, $869 million and $2,491 million in 2004, 2003 and 2002, respectively.

The current tax benefit realized upon the exercise of stock options is charged to capital in excess of par value of stock and amounted to $26 million, $10 million and $45 million in 2004, 2003 and 2002, respectively.

As of December 31, 2004, the Company had approximately $16.9 billion of undistributed earnings of foreign subsidiaries. The Company accrued a provision for $575 million of estimated deferred taxes in the fourth quarter of 2004 in anticipation of repatriating approximately $9 billion of these earnings in 2005 pursuant to the AJCA. The Company's estimate of the tax cost related to the repatriation may be revised as a result of additional guidance or clarifying language that may be issued by Congress and/or the Department of the Treasury, or any changes in the Company's factual assumptions that may occur. Taxes were not provided on the balance of undistributed earnings of approximately $7.9 billion, as the Company has invested or expects to invest these undistributed earnings permanently offshore. If in the future these earnings are repatriated to the United States, or if the Company determines such earnings will be remitted in the foreseeable future, additional tax provisions would be required. Due to complexities in the tax laws and the assumptions that would have to be made, it is not practicable to estimate the amounts of income taxes that would have to be provided.

2.147

STEWART & STEVENSON SERVICES, INC. (JAN)

(In thousands)	2005	2004
Total current assets	$462,955	$447,806
Property, plant and equipment, net	119,261	133,203
Deferred income tax asset	20,973	12,391
Intangibles and other assets, net	10,153	9,263
Total assets	$613,342	$602,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Deferred Income Tax Assets and Liabilities

The Company records deferred tax assets and liabilities for differences between the book basis and tax basis of net assets as well as taxable net operating loss carry forwards. The Company records a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount the Company expects to realize. The Company considers the amount of taxable income available in carryback years, future taxable income and potential tax planning strategies in assessing the potential need for a valuation allowance.

Note 9 (In Part): Income Taxes

The net deferred tax assets from continuing operations are determined under the liability method based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted statutory tax rates. The deferred tax provision (benefit) is the result of changes in these temporary differences. The tax effects of the temporary differences which comprise the deferred tax asset at the end of Fiscal 2004 and 2003 are as follows:

(In thousands)	Fiscal 2004	Fiscal 2003
Deferred tax assets		
Postretirement benefit obligation	$ 5,394	$ 5,497
Accrued expenses and other reserves	14,864	10,779
Pension accounting	15,461	13,378
Net operating loss carryforwards	11,585	616
Other	3,602	1,037
Valuation allowance	(155)	(538)
Gross deferred tax assets	50,751	30,769
Deferred tax liabilities		
Property, plant, and equipment	8,480	2,456
Contract accounting	1,495	1,582
Prepaid expenses and deferred charges	10,484	8,684
Other	3,190	1,056
Gross deferred tax liabilities	23,649	13,778
Net deferred tax asset	$27,102	$16,991
Current portion of deferred tax asset	$ 6,307	$ 4,791
Non-current portion of deferred tax asset	20,973	12,391
Non-current portion of deferred tax liability	(178)	(191)
Net deferred tax asset	$27,102	$16,991

The Company believes it is more likely than not that the net deferred income tax asset as of January 31, 2005 in the amount of $27.1 million will be realized, based on expected future taxable income and potential tax planning strategies. The Company will require future taxable income in order to fully realize its net deferred tax assets. At January 31, 2005, the Company had aproximately $2.2 million and $0.6 million tax credit carryforwards for Research and Experimental expenses and Alternative Minimum Tax, respectively. At January 31, 2004, the Company had approximately $1.0 million and $1.4 million tax credit carryforwards for Research and Experimental expenses and Alternative Minimum Tax, respectively. These credits are available to offset future federal income tax liabilities. The alternative minimum tax credit has no expiration date. The Research and Experimentation credits generated in Fiscal 2002, 2003 and 2004 can be carried forward for twenty years. The expiration date of the net operating loss carryforward for federal income tax purposes is January 31, 2025. The expiration dates for state net operating loss carryforwards range from January 31, 2014 to January 31, 2025.

Prepaid Pension Cost

2.148

CENTURYTEL, INC. (DEC)

(Dollars in thousands)	2004	2003
Total current assets	$ 419,847	$ 462,939
Net property, plant and equipment	3,341,401	3,455,481
Goodwill and other assets		
Goodwill	3,433,864	3,425,001
Other	601,841	552,431
Total investments and other assets	4,035,705	3,977,432
Total assets	$7,796,953	$7,895,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Retirement and Savings Plans

The following is a reconciliation of the beginning and ending balances for the aggregate benefit obligation and the plan assets for the Company's retirement and savings plans.

(Dollars in thousands)	2004	2003	2002
Change in benefit obligation			
Benefit obligation at beginning of year	$390,833	$346,256	$271,490
Service cost	14,175	12,840	10,353
Interest cost	23,156	23,617	20,053
Plan amendments	428	—	—
Acquisitions	—	—	51,428
Settlements	—	(9,962)	—
Actuarial loss	16,304	46,221	9,231
Benefits paid	(26,266)	(28,139)	(16,299)
Benefit obligation at end of year	$418,630	$390,833	$346,256
Change in plan assets			
Fair value of plan assets at beginning of year	$348,308	$266,420	$270,902
Return on plan assets	35,892	52,783	(42,998)
Employer contributions	6,047	50,437	3,387
Acquisitions	—	6,807	51,428
Benefits paid	(26,266)	(28,139)	(16,299)
Fair value of plan assets at end of year	$363,981	$348,308	$266,420

At December 31, 2004 and 2003, the Company's underfunded pension plans (meaning those with benefit obligations in excess of plan assets) had aggregate benefit obligations of $172.0 million and $138.4 million, respectively, and aggregate plan assets of $109.0 million and $84.4 million, respectively.

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The following table sets forth the combined plans' funded status and amounts recognized in the Company's consolidated balance sheet at December 31, 2004, 2003 and 2002.

(Dollars in thousands)	2004	2003	2002
Benefit obligation	$(418,630)	$(390,833)	$(346,256)
Fair value of plan assets	363,981	348,308	266,420
Unrecognized transition asset	(648)	(900)	(1,152)
Unamortized prior service cost	3,618	3,721	4,370
Unrecognized net actuarial loss	98,479	98,759	102,664
Prepaid pension cost	$ 46,800	$ 59,055	$ 26,046

The Company's accumulated benefit obligation as of December 31, 2004 and 2003 was $353.1 million and $329.0 million, respectively.

Amounts recognized on the balance sheet consist of:

(Dollars in thousands)	2004	2003	2002
Prepaid pension cost (reflected in other assets)	$ 46,800	$ 59,055	$ 26,046
Additional minimum pension liability (reflected in deferred credits and other liabilities)	(18,450)	—	(56,388)
Intangible asset (reflected in other assets)	3,043	—	1,212
Accumulated other comprehensive loss	15,407	—	55,176
	$ 46,800	$ 59,055	$ 26,046

2.149

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	2004	2003
Total current assets	$ 6,907	$ 5,738
Property, plant, and equipment		
Land and land improvements	533	500
Buildings	1,791	1,660
Machinery and other equipment	3,807	3,426
Leasehold improvements	268	235
	6,399	5,821
Accumulated depreciation	(2,189)	(1,774)
Property, plant, and equipment, net	4,210	4,047
Other assets		
Goodwill	17,182	17,333
Other purchased intangible assets, net of accumulated amortization of $1,205 in 2004 and $987 in 2003	1,477	1,710
Prepaid retiree benefits cost and intangible pension asset	2,938	2,988
Deferred income taxes	28	
Other assets	619	1,206
Total other assets	22,244	23,237
Total assets	$33,361	$33,022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Retirement Benefits

The company sponsors various pension plans covering substantially all employees. The company also provides postretirement benefit plans other than pensions, consisting principally of health care and life insurance benefits, to eligible retirees and qualifying dependents. The liabilities and annual income or expense of the company's pension and other postretirement benefit plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return (based on the market related value of assets), and medical trend (rate of growth for medical costs). Not all net periodic pension income or expense is recognized in net earnings in the year incurred because it is allocated to production as product costs, and a portion remains in inventory at the end of a reporting period. The company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust.

15 (In Part): Retirement Benefits

Summary Plan Results (In Part)

The following tables set forth the funded status and amounts recognized in the Consolidated Statements of Financial Position for the company's defined-benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as 22 unfunded non-qualified plans for benefits provided to directors, officers, and employees either beyond those provided by, or payable under, the company's qualified plans. The company uses a December 31 measurement date for most of its plans.

	Pension Benefits		Medical and Life Benefits	
($ in millions)	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation at beginning of year	$16,872	$21,524	$ 2,986	$ 3,809
Service cost	564	491	56	52
Interest cost	1,050	1,022	175	176
Plan participants' contributions	21	24	72	63
Special termination benefits			8	4
Plan amendments	84	50	(13)	(3)
Actuarial loss	1,555	205	198	124
Divestitures	(81)	(5,216)		(978)
Acquisitions/transfers	302	(90)		(17)
Settlements		(47)		
Benefits paid	(1,029)	(1,091)	(259)	(244)
Benefit obligation at end of year	19,338	16,872	3,223	2,986
Change in plan assets				
Fair value of plan assets at beginning of year	15,985	18,532	688	561
Gain on plan assets	2,076	3,023	71	131
Employer contributions	624	329	182	177
Plan participants' contributions	21	24	72	63
Divestitures	(83)	(4,808)		
Acquisitions/transfers	143	24		
Settlements		(48)		
Benefits paid	(1,029)	(1,091)	(259)	(244)
Other	(17)			
Fair value of plan assets at end of year	17,720	15,985	754	688
Funded status	(1,618)	(887)	(2,469)	(2,298)
Unrecognized prior service cost	322	289	(10)	3
Unrecognized net transition obligation	2			
Unrecognized net loss	2,647	1,799	562	397
Net asset (liability) recognized	$ 1,353	$ 1,201	$(1,917)	$(1,898)
Amounts recognized in the statements of financial position				
Prepaid benefit cost	$ 2,868	$ 2,918	$ 46	$ 44
Accrued benefit liability	(1,773)	(1,869)	(1,963)	(1,942)
Intangible asset	24	26		
Accumulated other comprehensive loss	234	126		
Net asset (liability) recognized	$ 1,353	$ 1,201	$(1,917)	$(1,898)

Software Development Costs

2.150

ANALOGIC CORPORATION (JUL)

(In thousands)	2004	2003
Total current assets	$328,121	$335,903
Property, plant and equipment, net	91,077	83,926
Investments in and advances to affiliated companies	10,967	14,050
Capitalized software, net	9,502	6,339
Goodwill	1,565	2,306
Intangible assets, net	9,223	11,708
Costs related to deferred revenue	219	652
Other assets	1,397	2,533
Total assets	$452,071	$457,417

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Business Operations and Significant Accounting Policies

f) Capitalized Software Costs

Software development costs incurred subsequent to establishing technological feasibility through general release of the software products are capitalized in accordance to SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Capitalized costs are amortized on a straight-line basis over the economic lives of the related products, generally three years. Amortization expense was $1,801, $1,813 and $1,772 in fiscal 2004, 2003 and 2002, respectively and is included in product cost of sales. The unamortized balance of capitalized software was $9,502 and $6,339 at July 31, 2004 and 2003, respectively.

2.151

THE DUN & BRADSTREET CORPORATION (DEC)

(Dollar amounts in millions)	2004	2003
Total current assets	$ 762.1	$ 730.8
Non-current assets		
Property, plant and equipment, net of accumulated depreciation of $202.5 at December 31, 2004 and $230.1 at December 31, 2003	51.2	55.1
Prepaid pension costs	455.3	414.5
Computer software, net of accumulated amortization of $328.0 at December 31, 2004 and $306.6 at December 31, 2003	32.4	47.2
Goodwill, net	217.0	256.9
Deferred income tax	60.9	56.0
Other non-current assets	56.6	64.2
Total non-current assets	873.4	893.9
Total assets	$1,635.5	$1,624.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Computer Software

We account for computer software used in our business in accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In addition, certain computer software costs related to software sold to customers are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Capitalized computer software costs are amortized over its estimated useful life, typically three to five years, and are reported at the lower of unamortized cost or net realizable value. We review the valuation of capitalized software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors that could trigger an impairment review include significant changes in the manner of use of the assets or strategic decisions made relating to future plans for those assets, as well as consideration of future operating results, significant negative industry trends or economic trends.

Derivatives

2.152

CLEAR CHANNEL COMMUNICATIONS, INC. (DEC)

(In thousands)	2004	2003
Total current assets	$ 2,269,922	$ 2,185,682
Property, plant and equipment		
Land, buildings and improvements	1,740,990	1,635,611
Structures	3,110,233	2,888,834
Towers, transmitters and studio equipment	845,295	829,488
Furniture and other equipment	779,632	694,163
Construction in progress	95,305	161,973
	6,571,455	6,210,069
Less accumulated depreciation	2,447,181	1,949,154
	4,124,274	4,260,915
Intangible assets		
Definite-lived intangibles, net	629,663	717,181
Indefinite-lived intangibles—licenses	4,323,297	11,797,742
Indefinite-lived intangibles—permits	211,690	424,640
Goodwill	7,220,444	7,306,338
Other assets		
Notes receivable	16,801	19,389
Investments in, and advances to, nonconsolidated affiliates	395,371	353,132
Other assets	348,898	361,306
Other investments	387,589	926,368
Total assets	$19,927,949	$28,352,693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments and Hedging Activities

Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("Statement 133"), requires the Company to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting. The Company accounts for its derivative instruments that are not designated as hedges at fair value, with changes in fair value recorded in earnings. The Company does not enter into derivative instruments for speculation or trading purposes. See Note G for a discussion of the Company's specific derivative instruments and hedging activities.

Note F (In Part): Long-Term Debt

Long-term debt at December 31, 2004 and 2003 consisted of the following:

(In thousands)	2004	2003
Bank credit facilities	$ 350,486	$ 710,612
Senior notes:		
6.5% notes (denominated in Euro) due 2005	264,755	818,805
6.0% senior notes due 2006	750,000	750,000
3.125% senior notes due 2007	250,000	250,000
4.625% senior notes due 2008	500,000	500,000
6.625% senior notes due 2008	125,000	125,000
4.25% senior notes due 2009	500,000	500,000
7.65% senior notes due 2010	750,000	750,000
4.5% senior notes due 2010	250,000	—
4.4% senior notes due 2011	250,000	250,000
5.0% senior notes due 2012	300,000	300,000
5.75% senior notes due 2013	500,000	500,000
5.5% senior notes due 2014	750,000	—
4.9% senior notes due 2015	250,000	250,000
5.5% senior notes due 2016	250,000	—
6.875% senior debentures due 2018	175,000	175,000
7.25% debentures due 2027	300,000	300,000
Original issue (discount) premium	(10,255)	(4,479)
Fair value adjustments related to interest rate swaps	6,524	7,021
Various subsidiary level notes	688,848	688,097
Other long-term debt	179,477	194,956
	7,379,835	7,065,012
Less: current portion	417,275	143,664
Total long-term debt	$6,962,560	$6,921,348

Senior Notes (In Part)

Interest Rate Swaps

The Company entered into interest rate swap agreements on the 3.125% senior notes due 2007, the 4.25% senior notes due 2009, the 4.4% senior notes due 2011 and the 5.0% senior notes due 2012 whereby the Company pays interest at a floating rate and receives the fixed rate coupon. The Company terminated an interest rate swap agreement on the 7.875% notes due 2005 during 2003 and received $83.8 million in proceeds. The fair value of our swaps was $6.5 million and $7.0 million at December 31, 2004 and 2003, respectively.

Note G (In Part): Financial Instruments

The Company has entered into financial instruments, such as interest rate swaps, secured forward exchange contracts and foreign currency rate management agreements, with various financial institutions. The Company continually monitors its positions with, and credit quality of, the financial institutions which are counterparties to its financial instruments. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company considers this risk to be low.

Interest Rate Swaps

The Company has $1.3 billion of interest rate swaps that are designated as fair value hedges that hedge the underlying fixed-rate debt obligations. The terms of the underlying debt and the interest rate swap agreements coincide; therefore the hedge qualifies for the short-cut method defined in Statement 133. Accordingly, no net gains or losses were recorded on the statement of operations related to the Company's underlying debt and interest rate swap agreements. On December 31, 2004 and 2003, the fair value of the interest rate swap agreements was recorded on the balance sheet as "Other assets" with the offset recorded in "Long-term debt" of approximately $6.5 million and $7.0 million, respectively. Accordingly, an adjustment was made to the asset and carrying value of the underlying debt on December 31, 2004 and 2003 to reflect the increase in fair value.

Secured Forward Exchange Contracts (In Part)

In 2001, CCI, Inc. entered into two ten-year secured forward exchange contracts that monetized 2.9 million shares of its investment in American Tower Corporation ("AMT"). The AMT contracts had a value of $29.9 million and $47.3 million at December 31, 2004 and December 31, 2003, respectively, recorded in "Other assets". These contracts are not designated as a hedge of the Company's cash flow exposure of the forecasted sale of the AMT shares. During the years ended December 31, 2004, 2003 and 2002, the Company recognized losses of $17.4 million and $17.1 million and a gain of $29.5 million, respectively, in "Gain (loss) on marketable securities" related to the change in the fair value of these contracts. To offset the change in the fair value of these contracts, the Company has recorded AMT shares as trading securities. During the years ended December 31, 2004, 2003 and 2002, the Company recognized income of $15.2 million, $13.8 million and a loss of $11.9 million, respectively, in "Gain (loss) on marketable securities" related to the change in the fair value of the shares.

Segregated Funds

2.153

CERIDIAN CORPORATION (DEC)

(Dollars in millions)	2004	2003
Total current assets	$ 824.0	$ 676.0
Property, plant and equipment, net	140.9	148.0
Goodwill	931.8	918.6
Other intangible assets, net	43.6	90.2
Software and development costs, net	75.7	86.2
Prepaid pension cost	13.1	12.2
Deferred income taxes	26.7	9.6
Investments	16.4	22.9
Derivative instruments	28.1	55.7
Other noncurrent assets	10.6	8.7
Total assets before customer funds	2,110.9	2,028.1
Customer funds	4,096.0	3,152.7
Total assets	$6,206.9	$5,180.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Accounting Policies

Revenue Recognition (In Part)

Payroll Processing and Tax Filing Services

Generally, service fees for HRS payroll transaction processing are contracted on a per transaction basis and recognized as revenue when transaction services are provided and the amount is billable. We also recognize payroll services revenue from customer funds held temporarily pending remittance to the customer's employees. These payroll deposits are primarily invested through grantor trusts. We derive and recognize investment income in lieu of fees as a component of revenue as earned.

Our payroll tax filing services consist primarily of: (1) collecting funds for federal, state and local employment taxes from customers based on payroll information provided by the customers; (2) remitting funds collected to the appropriate taxing authorities; (3) filing applicable returns; and (4) handling related regulatory correspondence and amendments for customers. Revenue from these tax filing services is billed and recognized as the services are provided, generally on a monthly basis. We hold our customers' tax filing deposits for the period between collection and remittance of the funds to the applicable taxing authority. These tax filing deposits are invested through a grantor trust. We derive and recognize this investment income in lieu of fees as a component of revenue as earned.

Payroll processing and tax filing services are sold separately; accordingly, we have objective evidence of standalone value for each service. Separate sales also establish the fair value of each of the services sold in the event a customer contracts with us for multiple services.

M. Customer Funds

In connection with our U.S. and Canadian payroll and tax filing services, we collect funds for payment of payroll and taxes; temporarily hold such funds in trust until payment is due; remit the funds to the clients' employees and appropriate taxing authority; file federal, state and local tax returns; and handle related regulatory correspondence and amendments. In connection with our HRS benefits services operation, we receive funds on behalf of our customers for remittances to employees, insurance providers and others. Comdata also holds non-interest bearing funds in a trust for its eCash customers.

We invest the U.S. customer funds primarily in high quality collateralized short-term investments or money market mutual funds. We may also invest these funds in U.S. Treasury and Agency securities, AAA rated asset-backed securities and corporate securities rated A3/A– or better. Our Canadian trust funds are invested in securities issued by the government and provinces of Canada, highly rated Canadian banks and corporations, asset-backed trusts and mortgages.

Effective May 1, 2004, we transferred our investments of customer funds from the "held-to-maturity" category to the "available-for-sale" category to reflect our decision to change the holding period of underlying investments, in order to provide additional flexibility in managing credit risks for this portfolio. As a result, investments of customer funds are reported at fair value rather than amortized cost at all dates subsequent to the change. The after tax impact of unrealized gains and losses resulting from periodic revaluation of these securities are reported as accumulated other comprehensive income in stockholders' equity.

At December 31, 2004, the fair value of investments of customer funds exceeded the related amortized cost by $28.8. This change resulted in an after-tax unrealized gain of $18.5 in accumulated other comprehensive income.

Investment income from invested customer funds constitutes a component of our compensation for providing services under agreements with our customers. Investment income from invested customer funds included in revenue amounted to $75.6 in 2004, $62.2 in 2003 and $64.6 in 2002 and does not include realized gains from our interest rate derivative instruments. We further discuss our accounting for this investment income in the section entitled "Revenue Recognition" of Note A, "Accounting Policies."

The average cost basis of invested customer funds amounted to $2,435.2 and $2,145.9, respectively, for the years ended December 31, 2004 and 2003. The following tables provide information on cost and market price for various classifications of customer fund investments and amounts by maturity date.

			Gross Unrealized	
Investments of Customer Funds at December 31, 2004 (Available-for-Sale)	Cost	Market*	Gain	Loss
Money market securities and other cash equivalents	$2,619.4	$2,619.4	$ —	$ —
Held-to-maturity investments:				
U.S. government and agency securities	750.4	758.7	8.8	(0.5)
Canadian and provincial government securities	323.0	337.0	14.0	—
Corporate debt securities	243.1	247.8	5.3	(0.6)
Asset-backed securities	77.7	78.8	1.4	(0.3)
Mortgage-backed and other securities	40.0	40.7	0.8	(0.1)
Total held-to-maturity investments	1,434.2	1,463.0	30.3	(1.5)
Invested customer funds	4,053.6	4,082.4	$30.3	$(1.5)
Trust receivables	13.6	13.6		
Total customer funds	$4,067.2	$4,096.0		

* As reported in the consolidated balance sheet.

Investments of Customer Funds at December 31, 2003 (Held-to-Maturity)	Cost*	Market
Money market securities and other cash equivalents	$2,202.0	$2,202.0
Held-to-maturity investments:		
U.S. government and agency securities	311.1	317.4
Canadian and provincial government securities	201.0	208.1
Corporate debt securities	209.0	216.0
Asset-backed securities	159.5	163.0
Mortgage-backed and other securities	58.7	59.6
Total held-to-maturity investments	939.3	964.1
Invested customer fund	3,141.3	3,166.1
Trust receivables	11.4	11.4
Total customer funds	$3,152.7	$3,177.5

* As reported in the consolidated balance sheet.

	December 31, 2004	
Investments of Customer Funds by Maturity Date	Cost	Market
Due in one year or less	$2,686.6	$2,687.4
Due in one to three years	319.3	328.8
Due in three to five years	443.6	448.0
Due after five years	604.1	618.2
Total	$4,053.6	$4,082.4

Debt Issue Costs

2.154

HCA INC. (DEC)

(Dollars in millions)	2004	2003
Total current assets	$ 4,683	$ 4,822
Property and equipment, at cost:		
Land	1,185	1,151
Buildings	7,981	7,520
Equipment	10,127	9,101
Construction in progress	677	913
	19,970	18,685
Accumulated depreciation	(8,574)	(7,620)
	11,396	11,065
Investments of insurance subsidiary	2,047	1,790
Investments in and advances to affiliates	486	527
Goodwill	2,540	2,481
Deferred loan costs	99	75
Other	214	303
Total assets	$21,465	$21,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property and Equipment and Amortizable Intangibles (In Part)

Debt issuance costs are amortized based upon the lives of the respective debt obligations. The gross carrying amount of deferred loan costs at December 31, 2004 and 2003 was $138 million and $107 million, respectively, and accumulated amortization was $39 million and $32 million at December 31, 2004 and 2003, respectively. Amortization of deferred loan costs is included in interest expense and was $14 million, $10 million and $11 million for 2004, 2003 and 2002, respectively.

Property Held for Sale

2.155

ALCOA INC. (DEC)

(In millions)	2004	2003
Total current assets	$ 7,493	$ 6,683
Properties, plants, and equipment, net	12,592	12,500
Goodwill	6,541	6,443
Investments	2,066	2,005
Other assets	3,707	3,288
Assets held for sale	210	792
Total assets	$32,609	$31,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in million)

A (In Part): Summary of Significant Accounting Policies

Discontinued Operations and Assets Held for Sale

Alcoa adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This standard establishes accounting and reporting requirements for the impairment or disposal of long-lived assets. For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The fair values are estimated using accepted valuation techniques such as a DCF model, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

Businesses to be divested are classified in the Consolidated Financial Statements as either discontinued operations or assets held for sale. For businesses classified as discontinued operations, the balance sheet amounts and income statement results are reclassified from their historical presentation to assets and liabilities of operations held for sale on the Consolidated Balance Sheet and to discontinued operations in the Statement of Consolidated Income for all periods presented. The Statement of Consolidated Cash Flows is also reclassified for assets held for sale and discontinued operations for all periods presented. Additionally, segment information does not include the results of businesses classified as discontinued operations. Management does not expect any continuing involvement with these businesses following the sales, and these businesses are expected to be disposed of within one year.

For businesses classified as assets held for sale, the balance sheet and cash flow amounts are reclassified from their historical presentation to assets and liabilities of operations held for sale. The income statement results continue to be reported in the historical income statement categories as income from continuing operations. The segment results include the results of businesses classified as assets held for sale for all periods presented. Management expects that Alcoa will have continuing involvement with these businesses following the sale, primarily in the form of ongoing aluminum or other significant supply contracts.

B. Discontinued Operations and Assets Held for Sale

Alcoa's financial statements for all periods presented were significantly impacted by activities relating to the planned divestiture of a number of Alcoa's businesses.

In 2002, Alcoa performed a portfolio review of its businesses and the markets they serve. As a result of this review, Alcoa committed to a plan to divest certain noncore businesses that did not meet internal growth and return measures. This plan was substantially completed in 2004 with the divestitures of the following businesses: specialty chemicals, packaging equipment, automotive fasteners, South American flexible packaging, foil facilities in Russellville, AR and St. Louis, MO, and extrusion facilities in Europe and Brazil. See Note F for additional details.

In the second quarter of 2004, certain architectural products businesses in North America were reclassified from assets held for sale to assets held and used as management discontinued the plan of sale due to market conditions. The financial statements for prior periods have been reclassified to reflect this change. The reclassification did not impact the Statement of Consolidated Income, and the results of operations of these architectural products businesses continue to be presented in the Engineered Products segment.

Also in 2004, Alcoa identified additional businesses to be divested so as to better focus on its core capabilities. As a result, the following businesses have been reclassified from assets held and used to discontinued operations for all periods presented.

- In the third quarter of 2004, the protective packaging business was reclassified to discontinued operations. A $16 after-tax impairment charge was recorded to reflect the current estimated fair value of the business. The results of the Packaging and Consumer segment have been reclassified to reflect the movement of this business into discontinued operations.
- In the fourth quarter of 2004, the telecommunications business and a small casting business in the U.K. were reclassified to discontinued operations. Impairment charges of $63 (after tax and minority interests) for the telecommunications business and $10 (after tax and minority interests) for the casting business were recorded to reflect the current estimated fair values of these businesses. The results of the Other group have been reclassified to reflect the movement of these businesses into discontinued operations.

The following table details selected financial information for the businesses included within discontinued operations in the Statement of Consolidated Income.

	2004	2003	2002
Sales	$ 482	$ 636	$ 685
Loss from operations	(14)	(47)	(153)
Gain on sale of businesses	8	—	—
Loss from impairment	(153)	(69)	(91)
Pre-tax loss	(159)	(116)	(244)
Benefit for taxes	24	39	75
Minority interests	43	7	37
Loss from discontinued operations	$ (92)	$ (70)	$(132)

The loss of $92 in discontinued operations in 2004 was comprised of impairment losses of $89 to reflect the current estimated fair values on businesses to be divested as described above, $8 of net operating losses of these businesses, and a net gain of $5 on businesses sold in 2004. The loss of $70 in discontinued operations in 2003 was comprised of an impairment loss of $45 related to the reduction in the estimated fair value of the automotive fasteners business and $25 of operating losses. The loss of $132 in discontinued operations in 2002 was comprised of an impairment loss of $59 to reduce the carrying values of certain businesses to be divested to their estimated fair values less costs to sell, $53 of operating losses, and $20 for the impairment of goodwill in the telecommunications business.

The major classes of assets and liabilities of operations held for sale in the Consolidated Balance Sheet are as follows:

	2004	2003
Assets:		
Receivables	$ 98	$181
Inventories	44	161
Properties, plants, and equipment, net	42	371
Other assets	26	79
Total assets held for sale	$210	$792
Liabilities:		
Accounts payable and accrued expenses	$ 54	$ 52
Other liabilties	15	46
Total liabilities of operations held for sale	$ 69	$ 98

For all of the businesses to be divested, the fair values were estimated utilizing accepted valuation techniques. The fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

Cash Value of Life Insurance

2.156

STEELCASE INC. (FEB)

(In millions)	2004	2003
Total current assets	$ 942.0	$ 845.2
Property and equipment, net	713.8	774.0
Notes receivable:		
Third party, net of allowances of $2.3 and $1.9	17.7	18.1
Affiliate, net of allowances of $0.7 and $6.6	1.0	5.9
Investment in leases, net of reserves of $3.7 and $8.8	47.1	101.9
Company owned life insurance	177.9	161.2
Deferred income taxes	112.4	79.0
Goodwill	210.2	209.8
Other intangible assets, net of accumulated amortization of $36.0 and $26.0	88.1	96.2
Other assets	40.2	59.3
Total assets	$2,350.4	$2,350.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Company Owned Life Insurance

Investments in company owned life insurance policies were made with the intention of utilizing them as a long-term funding source for post-retirement medical benefits, deferred compensation and supplemental retirement plan obligations aggregating $241.2 as of February 27, 2004. However, the assets do not represent a committed funding source. They are subject to claims from creditors and can be redesignated by us to another purpose at any time. The policies are recorded at their net cash surrender values, as reported by the four issuing insurance companies, whose Standard & Poor's credit ratings range from AA to AAA, and totaled $177.9 as of February 27, 2004 and $161.2 as of February 28, 2003.

Investments in company owned life insurance consist of approximately $86.0 in traditional whole life policies and approximately $91.9 in variable life insurance policies. In the traditional whole life policies, the investments return a set dividend rate that is periodically adjusted by the insurance companies based on the performance of their long-term investment portfolio. While the amount of the dividend can vary, the investments are not at risk to market declines in that the insurance companies guarantee a minimum dividend rate on these investments. In the variable life policies, we are able to allocate the investments across a set of choices provided by the insurance companies. As of February 27, 2004, the investments in the variable life policies were allocated 52% in fixed income securities and 48% in equity securities. The valuation of these investments is sensitive to changes in market interest rates and equity values. The annual net changes in market valuation, normal insurance expenses and any death benefit gains are reflected in the accompanying Consolidated Statements of Income. The net effect of these changes in 2004 resulted in a gain of approximately $15.0, recorded as 60% cost of sales and 40% operating expenses to offset the expense originally recorded. For 2003 and 2002, the net effect of these changes was immaterial.

Contracts

2.157

PEROT SYSTEMS CORPORATION (DEC)

(Dollars in thousands)	2004	2003
Total current assets	$ 590,581	$ 421,983
Property, equipment and purchased software, net	144,425	142,836
Goodwill	359,033	347,576
Deferred contract costs, net	48,459	13,419
Other non-current assets	81,113	84,783
Total assets	$1,223,611	$1,010,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Accounting for Revenue in Multiple-Deliverable Arrangements Subsequent to the Adoption of EITF 00-21

For those arrangements that contain both non-construction and construction services, we first determine whether each service, or deliverable, meets the separation criteria of EITF 00-21. In general, a deliverable (or a group of deliverables) meets the separation criteria if the deliverable has standalone value to the customer and if there is objective and reliable evidence of the fair value of the remaining deliverables in the arrangement. Each deliverable that meets the separation criteria is considered a "separate unit of accounting." We allocate the total arrangement consideration to each separate unit of accounting based on the relative fair value of each separate unit of accounting. The amount of arrangement consideration that is allocated to a delivered unit of accounting is limited to the amount that is not contingent upon the delivery of another separate unit of accounting.

After the arrangement consideration has been allocated to each separate unit of accounting, we apply the appropriate revenue recognition method for each separate unit of accounting as described previously based on the nature of the arrangement. All deliverables that do not meet the separation criteria of EITF 00-21 are combined into one unit of accounting, and the appropriate revenue recognition method is applied.

In arrangements for both non-construction and construction services, we may bill the customer prior to performing services, which would require us to record deferred revenue. In other arrangements, we may perform services prior to billing the customer, which could require us to record unbilled receivables or to defer the costs associated with either the non-construction or construction services, depending on the terms of the arrangement and the application of the revenue separation criteria of EITF 00-21.

In certain arrangements we may pay consideration to the customer at the beginning of a contract as an incentive, which is most commonly in the form of cash. This consideration is recorded in other non-current assets on the consolidated balance sheets and is amortized as a reduction to revenue over the term of the related contract.

As a result of our adoption of EITF 00-21, we recognized revenues of approximately $3,124 and $904 during 2004 and 2003, respectively, that were included in the cumulative effect of a change in accounting principle, which we recorded in the first quarter of 2003. These amounts were estimated as the amount by which unbilled revenue would have been reduced in these periods for those contracts impacted by the cumulative adjustment, based on the most recent percentage-of-completion models prepared for each contract during 2003.

Contract Costs

Costs to deliver services are expensed as incurred, with the exception of setup costs and the cost of certain construction and non-construction services for which the related revenues must be deferred under EITF 00-21 or other accounting literature. We defer and subsequently amortize certain setup costs related to activities that enable the provision of contracted services to customers. Deferred contract setup costs may include costs incurred during the setup phase of a customer arrangement relating to data center migration, implementation of certain operational processes, employee transition, and relocation of key personnel. We amortize deferred contract setup costs on a straight-line basis over the lesser of their estimated useful lives or the term of the related contract. Useful lives range from three years up to a maximum of the term of the related customer contract.

For a construction service in a single-deliverable arrangement, if the total estimated costs to complete the construction service exceed the total amount that can be billed under the terms of the arrangement, then a loss would generally be recorded in the period in which the loss first becomes probable. For a construction service in a multiple-deliverable arrangement, if the total estimated costs to complete the construction service exceed the amount of revenue that is allocated to the separate construction service unit of accounting (based on the relative fair value allocation, as limited to the amount that is not contingent), then the actual costs incurred to complete the construction service in excess of the allocated fair value would be deferred, up to the amount of the relative fair value, and amortized over the remaining term of the contract. A loss would be recorded on a construction service in a multiple-deliverable arrangement only if the total costs to complete the service exceeded the relative fair value of the service.

Deferred contract costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on our projection of the undiscounted future operating cash flows of the related customer contract. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to equal projected future discounted cash flows.

6 (In Part): Deferred Contract Costs, Net, and Other Non-Current Assets

Deferred Contract Costs

Included in deferred contract costs, net, is $27,128 and $4,167 as of December 31, 2004 and 2003, respectively, relating to costs deferred on a contract that includes both construction services and non-construction services. We determined that we could not recognize revenue on the construction services separately from the non-construction services. As a result, we are deferring both the revenue on the construction services, consisting of the amounts we are billing for those services, and the related costs, up to the relative fair value of the construction services. The amount of revenue that has been deferred on this contract as of December 31, 2004 and 2003, is $14,963 and $2,312, respectively, in long-term deferred revenue on the consolidated balance sheets.

The remaining balances of deferred contract costs, net, at December 31, 2004 and 2003, relate primarily to deferred contract setup costs, which are deferred and subsequently amortized on a straight-line basis over the lesser of their estimated useful lives or the term of the related contract. Amortization expense for deferred contract setup costs was $2,462 and $847 for the years ended December 31, 2004 and 2003, respectively. Before 2003, deferred contract setup costs and related amortization expense were not significant.

Assets of Nonhomogeneous Operations

2.158

D.R. HORTON, INC. (SEP)

(In millions)	2004	2003
Total homebuilding assets	$8,294.9	$6,722.0
Financial services:		
Cash and cash equivalents	37.9	40.5
Mortgage loans held for sale	623.3	485.5
Other assets	29.1	31.4
Total financial services assets	690.3	557.4
Total assets	$8,985.2	$7,279.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reporting Segments

The Company has two operating and reporting segments: Homebuilding and Financial Services. Homebuilding is the Company's core business, generating 98% of consolidated revenues and 91% to 95% of consolidated income before income taxes in fiscal 2004, 2003 and 2002.

The Company's homebuilding segment is primarily engaged in the acquisition and development of land for residential purposes and the construction and sale of residential homes on such land, in 21 states and 63 markets in the United States. The homebuilding segment generates most of its revenues from the sale of completed homes, with a lesser amount from the sale of land and lots.

The Company's financial services segment provides mortgage banking and title agency services principally to customers of the Company's homebuilding segment. The Company does not retain or service the mortgages that it originates, but, rather, sells the mortgages and related servicing rights to investors. The financial services segment generates its revenue from originating and selling mortgages and collecting fees for title insurance agency and closing services.

Assets, liabilities, revenues, expenses and operating income of the Company's reporting segments are separately presented in the consolidated balance sheets and consolidated statements of income. The accounting policies of the reporting segments are described throughout this note.

Mortgage Loans

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. Loans that have been closed but not committed to a third-party investor are matched with forward sales of mortgage backed securities ("FMBS") that are designated as fair value hedges. Hedged loans are typically committed to third-party investors within three days of origination. All loans held for sale are carried at cost adjusted for changes in fair value after the date of designation of an effective hedge, based on either sale commitments or current market quotes. Any gain or loss on the sale of loans is recognized at the time of sale. As of September 30, 2004, the Company had $27.6 million in loans not committed to third-party investors which were hedged with $27.0 million of FMBS. During the years ended September 30, 2004, 2003 and 2002, the Company had net gains on sales of loans of $87.5 million, $91.5 million, and $55.1 million, respectively.

The forward sales of mortgage-backed securities associated with uncommitted, funded loans are designated as fair value hedges of the risk of changes in the overall fair value of the related loans. Accordingly, changes in the value of the derivative instruments are recognized in current earnings, as are changes in the value of the loans. During the fiscal years ended September 30, 2004, 2003 and 2002, the Company's net gains related to the ineffective portion of its fair value hedging instruments were insignificant. The net gains are included in financial services revenues.

Note G. Financial Instruments

The fair values of the Company's financial instruments are based on quoted market prices, where available, or are estimated. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature, involve matters of judgment and therefore, cannot be determined with precision. Estimated fair values are significantly affected by the assumptions used. The Company's methods and assumptions used in estimating fair values are described below.

The carrying amounts of cash and cash equivalents, the mortgage warehouse facility, the commercial paper conduit facility and other secured notes payable as reported in the Company's balance sheets approximate their fair values due to their short maturity or floating interest rate terms, as applicable.

For the Senior and Senior Subordinated Notes, fair values represent quoted market prices. For our interest rate swaps, fair values represent market values as determined by the issuer of the swaps based upon the market's current anticipation of future LIBOR rate levels. For mortgage loans held for sale, forward sales of mortgage backed securities and interest rate lock commitments, the fair values are estimated based on quoted market prices for similar financial instruments. The table below sets forth the carrying values and estimated fair values of the Company's Senior and Senior Subordinated Notes, interest rate swaps, mortgage loans held for sale, forward sales of mortgage backed securities and interest rate lock commitments.

	September 30, 2004		September 30, 2003	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Homebuilding:				
Liabilities				
Senior and Senior Subordinated Notes	$2,932.7	$3,192.7	$2,439.3	$2,616.6
Interest rate swaps	12.7	12.7	20.8	20.8
Financial services:				
Assets				
Mortgage loans held for sale	623.3	623.3	485.5	485.5
Forward sales of mortgage backed securities	(0.3)	(0.3)	(3.3)	(3.3)
Interest rate lock commitments	0.3	0.3	3.4	3.4

Data Base

2.159

SCHLUMBERGER LIMITED (DEC)

(In thousands)	2004	2003
Total current assets	$ 7,059,749	$10,369,121
Fixed income investments, held to maturity	203,750	223,300
Investments in affiliated companies	883,598	776,965
Fixed assets less accumulated depreciation	3,761,729	3,799,711
Multiclient seismic data	346,522	505,784
Goodwill	2,789,048	3,377,583
Intangible assets	346,833	403,319
Deferred taxes	343,584	316,277
Other assets	265,964	269,266
Total assets	$16,000,777	$20,041,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Accounting Policies

Multiclient Seismic Data

The multiclient library consists of completed and in-process seismic surveys that are licensed on a nonexclusive basis. This data may be acquired and/or processed by Schlumberger or subcontractors. Multiclient surveys are primarily generated utilizing Schlumberger resources. Schlumberger capitalizes costs directly incurred in acquiring and processing the multiclient seismic data. Such costs are charged to *Cost of goods sold and services* based on the percentage of the total costs to the estimated total revenue that Schlumberger expects to receive from the sales of such data. However, under no circumstance will an individual survey carry a net book value greater than a 4-year straight-lined amortized value.

The carrying value of the multiclient library is reviewed for impairment annually as well as when an event or change in circumstance indicating impairment may have occurred. Adjustments to the value are recorded when it is determined that estimated future revenues, which involves significant judgment on the part of Schlumberger, would not be sufficient to recover the carrying value of the surveys. Significant adverse charges in Schlumberger's estimated future revenues could result in impairment charges in a future period.

12. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data is as follows:

(In millions)	2004	2003
Balance at beginning of year	$ 506	$1,018
Capitalized in year	63	150
Charged to cost of sale	(222)	(263)
Impairment, charged to income	—	(399)
Balance at end of year	$ 347	$ 506

CURRENT LIABILITIES

2.160 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

2.161 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.

2.162 *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. 222 survey companies made 229 fair value disclosures. 31 of those disclosures used market or broker quotes of the short-term debt to determine fair value. 29 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. 179 disclosures presented carrying amounts which approximated fair value of short-term debt. In addition there were 44 disclosures in which carrying value was compared to fair value in an exposition or table. Two of the disclosures stated it was not practicable to estimate fair value.

2.163 *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.

2.164 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.

2.165 While *SFAC No. 7* does not require modification of any existing pronouncements, its concepts my 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.

2.166 Examples of short-term debt presentations and disclosures follow.

2.167

TABLE 2-22: SHORT-TERM DEBT

	2004	2003	2002	2001
Description				
Notes or loans				
Payee indicated	26	31	45	45
Payee not indicated	89	100	112	131
Short-term debt or borrowings	138	145	148	142
Commercial paper	32	46	53	59
Other	38	33	31	57
Total Presentations	**323**	**355**	**389**	**434**
Number of Companies				
Showing short-term debt	285	308	321	361
Not showing short-term debt	315	292	279	239
Total Companies	**600**	**600**	**600**	**600**

2.168

CATERPILLAR INC. (DEC)

(Dollars in millions)	2004	2003	2002
Current liabilities:			
Short-term borrowings:			
—Machinery and Engines	$ 93	$ 72	$ 64
—Financial Products	4,064	2,685	2,111
Accounts payable	3,990	2,568	1,790
Accrued expenses	1,847	1,638	1,620
Accrued wages, salaries and employee benefits	1,730	1,802	1,779
Customer advances	555	305	259
Dividends payable	141	127	120
Deferred and current income taxes payable	259	216	70
Long-term debt due within one year:			
—Machinery and Engines	6	32	258
—Financial Products	3,525	2,949	3,654
Total current liabilities	$16,210	$12,394	$11,725

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Short-Term Borrowings

(Millions of dollars)	2004	2003	2002
Machinery and Engines:			
Notes payable to banks	$ 93	$ 72	$ 64
Financial Products:			
Notes payable to banks	370	183	174
Commercial paper	2,972	2,087	1,682
Collateralized trust obligation	240	—	—
Demand notes	482	415	255
	4,064	2,685	2,111
Total short-term borrowings	$4,157	$2,757	$2,175

See Note 6 for further discussion of the collateralized trust obligation.

The weighted average interest rates on external short-term borrowings outstanding were:

	2004	2003	2002
Notes payable to banks	5.9%	6.5%	5.7%
Commercial paper	2.5%	2.1%	2.5%
Collateralized trust obligation	2.3%	—	—
Demand notes	2.3%	2.3%	2.8%

Please refer to Note 20 and Table III for fair value information on short-term borrowings.

20 (In Part): Fair Values of Financial Instruments

We used the following methods and assumptions to estimate the fair value of our financial instruments:

Short-term borrowings—carrying amount approximated fair value.

● ● ● ● ● ●

TABLE III—FAIR VALUES OF FINANCIAL INSTRUMENTS

	2004		2003		2002	
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Asset (liability) at December 31						
Cash and short-term investments	$ 445	$ 445	$ 342	$ 342	$ 309	$ 309
Long-term investments	1,852	1,852	1,574	1,574	1,089	1,089
Foreign currency contracts	176	176	167	167	47	47
Finance receivables—net (excluding finance type leases)	13,457	13,445	11,439	11,489	10,098	10,168
Wholesale inventory receivables—net (excluding finance type leases)	882	857	681	666	637	641
Short-term borrowings	(4,157)	(4,157)	(2,757)	(2,757)	(2,175)	(2,175)
Long-term debt (including amounts due within one year)						
Machinery and Engines	(3,669)	(4,186)	(3,635)	(4,109)	(3,839)	(4,363)
Financial Products	(15,699)	(15,843)	(13,892)	(14,078)	(11,847)	(12,118)
Interest rate swaps						
Financial Products—						
in a net receivable position	75	75	87	87	84	84
in a net payable position	(69)	(69)	(59)	(59)	(85)	(85)
Guarantees	(10)	(10)	(5)	(9)	—	(6)

2.169

H. B. FULLER COMPANY (NOV)

(In thousands)	2004	2003
Current liabilities:		
Notes payable	$ 13,315	$ 11,493
Current installments of long-term debt	22,920	1,383
Trade payables	164,846	117,001
Accrued payroll/employee benefits	35,127	25,042
Other accrued expenses	48,720	29,196
Restructuring liabilities	1,366	1,844
Income taxes payable	7,155	14,067
Total current liabilities	$293,449	$200,026

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Notes Payable, Long-Term Debt and Lines of Credit

Notes Payable

Notes payable were $13,315 at November 27, 2004. Of this amount, $8,183 represented the utilization of short-term committed lines and $5,132 represented borrowings from various other short-term borrowings that were not part of committed lines. The weighted-average interest rates on short-term borrowings were 12.0%, 6.5% and 9.8% in 2004, 2003 and 2002, respectively. Fair values of these short-term obligations approximate their carrying values due to their short maturity. Total short-term committed lines at November 27, 2004 equaled $152,444 and of this amount $144,261 was unused.

Lines of Credit

Term	Committed	Drawn	Unused
Short-term	$152,444	$8,183	$144,261
Long-term	148,000	—	148,000
Total	$300,444	$8,183	$292,261

A set of revolving credit agreements with a group of major banks accounted for $271,000 of the committed lines of credit. The $271,000 of revolving credit agreements consisted of $148,000 in long-term committed lines and $123,000 in short-term committed lines.

- At November 27, 2004 the long-term portion of the revolving credit agreements equaled $148,000 and provided committed long-term credit through December of 2005. At the company's option, interest is payable at the London Interbank Offered Rate plus 0.850%–1.250%, adjusted quarterly based on the company's debt-to-EBITDA ratio, or a bid rate. A facility fee of 0.075%–0.150% is payable quarterly. No amounts were drawn at November 27, 2004.
- At November 27, 2004 the short-term portion of the revolving credit agreements equaled $123,000. Subsequent to year-end, the company renegotiated the short-term portion of the revolving credit agreements. At the company's option, interest is payable at the London Interbank Offer Rate plus 0.850–1.250%, adjusted quarterly based on the company's debt-to-EBITDA ratio, or bid rate. A facility fee of 0.150%–0.250% is payable quarterly. No amounts were drawn at November 27, 2004.

In addition to the $271,000 of revolving credit agreements referred to above, the company had $29,444 of committed credit facilities, comprised mostly of foreign short-term facilities. The major lines in these foreign short-term facilities carried a weighted-average interest rate of 6.6% and a maturity of December 31, 2004. There are no facility fees associated with these lines.

TRADE ACCOUNTS PAYABLE

2.170 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*.

2.171 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. 283 survey companies made 285 fair value disclosures. Carrying amount approximated fair value of trade payables for 270 disclosures.

2.172 Examples of trade accounts payable presentations follow.

2.173

TABLE 2-23: TRADE ACCOUNTS PAYABLE

	2004	2003	2002	2001
Accounts payable	458	466	454	453
Trade accounts payable	90	89	96	107
Accounts payable combined with accrued liabilities or accrued expenses	30	28	28	27
Other captions	22	17	22	13
Total Companies	**600**	**600**	**600**	**600**

2.174

CENDANT CORPORATION (DEC)

(In millions)	2004	2003
Current liabilities:		
Accounts payable and other current liabilities	$4,785	$4,668
Current portion of long-term debt	742	1,629
Liabilities of discontinued operations	—	61
Deferred income	805	854
Total current liabilities	$6,332	$7,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

14. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	2004	2003
Accounts payable	$1,367	$1,142
Accrued payroll and related	664	672
Income taxes payable	630	588
Acquisition and integration-related	244	332
Accrued interest	229	246
Accrued legal settlements	219	226
Accrued advertising and marketing	198	176
Other	1,234	1,286
	$4,785	$4,668

24 (In Part): Financial Instruments

Fair Value (In Part)

The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate. The carrying amounts of cash and cash equivalents, restricted cash, available-for-sale securities, accounts receivable, program cash, relocation receivables and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

2.175

THE WARNACO GROUP, INC. (DEC)

(Dollars in thousands)	2004	2003
Current liabilities:		
Accounts payable	$122,418	$ 96,074
Accrued liabilities	83,244	91,804
Accrued pension obligations	5,400	18,710
Liabilities of discontinued operations	1,450	7,440
Accrued income taxes payable	20,590	21,048
Deferred income taxes	1,746	—
Total current liabilities	$234,848	$235,076

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 (In Part): Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Accounts Payable

The carrying amount of the Company's accounts payable are approximately equal to their fair value because accounts payable are short-term in nature and the carrying value is equal to the settlement value.

The carrying amounts and fair value of the Company's financial instruments are as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Accounts receivable	$219,805	$219,805	$209,491	$209,491
Note receivable	13,993	13,993	18,700	18,700
Accounts payable	122,418	122,418	96,074	96,074
Senior Notes	209,771	231,000	209,464	216,300
Interest rate swaps (loss)	(229)	(229)	(536)	(536)
Letters of credit	—	61,097	—	66,186

EMPLOYEE-RELATED LIABILITIES

2.176 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.

2.177

TABLE 2-24: EMPLOYEE-RELATED LIABILITIES

	2004	2003	2002	2001
Description				
Salaries, wages, payrolls, commissions	265	266	266	271
Compensation	228	222	218	203
Benefits	76	60	50	47
Pension or profit-sharing contributions	56	49	48	35
Compensated absences	13	14	14	17
Other	44	46	48	41
Total Presentations	**682**	**657**	**644**	**614**
Number of Companies				
Disclosing employee related liabilities	506	500	499	482
Not disclosing	94	100	101	118
Total Companies	**600**	**600**	**600**	**600**

2.178

MERRIMAC INDUSTRIES, INC. (DEC)

	2004	2003
Current liabilities:		
Current portion of long-term debt	$ 904,940	$ 954,405
Accounts payable	1,309,132	1,239,925
Accrued liabilities	1,930,682	1,711,875
Customer deposits	233,406	389,211
Income taxes payable	85,131	—
Total current liabilities	$4,463,291	$4,295,416

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Accrued Liabilities

Accrued liabilities consist of the following:

	2004	2003
Commissions	$ 275,857	$ 458,282
Vacation	302,446	195,351
Employee compensation	473,796	216,808
Warranty reserve	177,833	150,000
Deferred compensation	39,000	39,000
Professional fees	500,078	316,957
Restructuring	10,200	102,984
Other	151,472	232,493
	$1,930,682	$1,711,875

2.179

ROBERT HALF INTERNATIONAL INC. (DEC)

(In thousands)	2004	2003
Accounts payable and accrued expenses	$ 72,034	$ 45,094
Accrued payroll costs and retirement obligations	195,634	140,635
Income taxes payable	12,600	—
Current portion of notes payable and other indebtedness	77	71
Total current liabilities	$280,345	$185,800

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Workers' Compensation

The Company self-insures or retains a portion of the exposure for losses related to workers' compensation. The Company has established reserves for workers' compensation claims based on historical loss statistics and periodic third party actuarial valuations.

Note F. Accrued Payroll Costs and Retirement Obligations

Accrued payroll costs and retirement obligations consisted of the following (in thousands):

	2004	2003
Payroll and benefits	$100,507	$61,121
Employee retirement obligations	47,825	41,006
Workers' compensation	19,398	15,090
Payroll taxes	27,904	23,418
	$195,634	$140,635

Included in employee benefits and retirement obligations is $42 million at December 31, 2004 and $36 million at December 31, 2003 related to a defined benefit retirement agreement for the Company's key executive. The amount of this obligation has been calculated in accordance with the current provisions of the employee's retirement agreement, which was initially entered into in 1985. The key assumptions used in this calculation include: expected retirement age, mortality, expected post retirement Consumer Price Index increases of 2.9% and 3.1%, and discount rates of 3.8% and 4.7% at December 31, 2004 and 2003, respectively.

INCOME TAX LIABILITY

2.180 Table 2-25 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

2.181

TABLE 2-25: CURRENT INCOME TAX LIABILITY

	2004	2003	2002	2001
Income taxes	334	318	296	285
Taxes—type not specified	57	59	47	45
Federal and state income taxes	9	8	9	9
Federal, state, and foreign income taxes	6	11	10	7
U.S. and foreign income taxes	5	8	4	6
Federal and foreign income taxes	4	2	5	5
Federal income taxes	4	2	5	4
Other captions	13	10	18	9
No current income tax liability	168	182	206	230
Total Companies	**600**	**600**	**600**	**600**

2.182

CUMMINS INC. (DEC)

(Dollars in millions)	2004	2003
Current liabilities		
Short-term borrowings	$ 346	$ 49
Accounts payable	823	557
Accrued product coverage and marketing expenses	279	246
Other accrued expenses (Note 10)	749	543
Total current liabilities	$2,197	$1,395

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Other Accrued Expenses

Other accrued expenses included the following:

($ millions)	2004	2003
Accrued salaries and wages	$241	$141
Accrued retirement obligations	200	165
Income taxes payable	52	30
Other	256	207
Total other accrued expenses	$749	$543

2.183

THE TIMBERLAND COMPANY (DEC)

(Amounts in thousands)	2004	2003
Current liabilities		
Accounts payable	$52,370	$38,026
Accrued expense		
Payroll and related	55,459	54,846
Other	68,579	60,579
Income taxes payable	34,737	27,482
Derivative liabilities	15,047	16,058
Total current liabilities	$226,192	$196,991

CURRENT AMOUNT OF LONG-TERM DEBT

2.184 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. 197 survey companies made 254 fair value disclosures. 89 of those disclosures used market or broker quotes of the current amount of long-term debt to determine fair value. 103 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. 120 disclosures presented carrying amounts which approximated fair value of current amount of long-term debt. In addition there were 52 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.

2.185 *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.

2.186 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.

2.187 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.

2.188

TABLE 2-26: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Current portion of long-term debt.........	234	232	233	232
Current maturities of long-term debt....	162	163	161	169
Current amount of long-term leases....	44	34	36	36
Long-term debt due or payable within one year..	33	32	36	34
Current installment of long-term debt..	16	11	21	15
Other captions.....................................	14	11	13	12

2.189

FOSTER WHEELER LTD. (DEC)

(In thousands of dollars)	2004	2003
Current liabilities:		
Current installments on long-term debt	$ 35,214	$ 21,100
Accounts payable	288,899	305,286
Accrued expenses	308,229	381,376
Estimated costs to complete long-term contracts	458,421	552,754
Advance payment by customers	111,300	50,248
Income taxes	53,058	39,595
Total current liabilities	$1,255,121	$1,350,359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

8 (In Part): Long-Term Debt

The following table shows the components of long-term debt:

	2004			2003		
	Current	Long-Term	Total	Current	Long-Term	Total
Senior credit facility (average interest rate: 2004–n/a; 2003–7.16%)	$ —	$ —	$ —	$ —	$ 128,163	$128,163
Senior notes at 6.75% interest, due November 15, 2005	11,372	—	11,372	—	200,000	200,000
Senior notes at 10.359% interest, due September 15, 2011	—	271,643	271,643	—	—	—
Convertible subordinated notes at 6.50% interest, due 2007	—	3,070	3,070	—	210,000	210,000
Subordinated Robbins facility exit funding obligations:						
1999C bonds at 7.25% interest, due October 15, 2009	14	69	83	1,690	10,440	12,130
1999C bonds at 7.25% interest, due October 15, 2024	—	20,491	20,491	—	77,155	77,155
1999D bonds at 7% interest, due October 15, 2009	—	233	233	—	23,994	23,994
Mandatorily redeemable preferred securities of subsidiary trust holding solely junior						
Subordinated deferrable interest debentures	—	—	—	—	175,000	175,000
Subordinated deferrable interest debentures	—	71,177	71,177	—	—	—
Special-purpose project debt:						
Martinez Cogen Limited Partnership	7,280	7,980	15,260	6,627	15,260	21,887
Foster Wheeler Coque Verde, L.P.	2,975	32,151	35,126	2,656	35,126	37,782
Camden County Energy Recovery Associates	8,959	59,936	68,895	8,613	68,895	77,508
Capital lease obligations	990	66,297	67,287	1,322	62,373	63,695
Other	3,624	1,812	5,436	192	5,566	5,758
Total	$35,214	$534,859	$570,073	$21,100	$1,011,972	$1,033,072

Capital Leases (In Part)

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 31, 2004:

Fiscal year:	
2005	$ 7,529
2006	7,954
2007	7,519
2008	7,678
2009	7,943
Thereafter	126,147
Less: Interest	(97,483)
Net minimum lease payments under capital leases	67,287
Less: current portion of net minimum lease payments	990
Long-term net minimum lease payments	$ 66,297

Aggregate Maturities

Aggregate principal repayments and sinking fund requirements of long-term debt, excluding payments on capital lease obligations and premium amortization on the 2011 Senior Notes of $10,172, over the next five years as of December 31, 2004 are as follows:

Fiscal year:	
2005	$ 34,224
2006	22,250
2007	16,059
2008	13,810
2009	14,841
Thereafter	391,430
Total	$492,614

11 (In Part): Financial Instruments and Risk Management

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate values:

Long-Term Debt

The fair value of the Company's long-term debt (including current installments) is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Carrying Amounts and Fair Values

The estimated fair values of the Company's financial instruments are as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivatives:				
Cash and short-term investments	$ 317,342	$ 317,342	$ 377,485	$ 377,485
Restricted cash	72,844	72,844	52,685	52,685
Long-term debt	(570,073)	(573,319)	(1,033,072)	(591,201)
Derivatives:				
Foreign currency contracts	419	419	3,315	3,315

2.190

LEUCADIA NATIONAL CORPORATION (DEC)

(Dollars in thousands)	2004	2003
Current liabilities:		
Trade payables and expense accruals	$407,350	$377,473
Deferred revenue	52,632	47,311
Other current liabilities	94,956	89,390
Customer banking deposits due within one year	18,472	103,331
Debt due within one year	68,237	23,956
Income taxes payable	17,690	15,867
Total current liabilities	$659,337	$657,328

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Indebtedness

The principal amount, stated interest rate and maturity of debt outstanding at December 31, 2004 and 2003 are as follows (dollars in thousands):

	2004	2003
Parent company debt:		
Senior notes:		
Bank credit facility	$ —	$ —
$7\frac{3}{4}$% senior notes due 2013, less debt discount of $431 and $481	99,569	99,519
7% senior notes due 2013, net of debt (premium) discount of $(1,105) and $1,016	376,105	273,984
Subordinated notes:		
$8\frac{1}{4}$% senior subordinated notes due 2005	19,101	19,101
$7\frac{7}{8}$% senior subordinated notes due 2006, less debt discount of $20 and $31	21,656	21,645
$3\frac{3}{4}$% convertible senior subordinated notes due 2014	350,000	—
8.65% junior subordinated deferrable interest debentures due 2027	98,200	—
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debt securities of the company	—	98,200
Subsidiary debt:		
WilTel credit agreement	359,368	375,000
One Technology Center ("OTC") notes	60,268	119,125
Aircraft financing	45,562	47,675
Industrial revenue bonds (with variable interest)	9,815	9,815
Capital leases due 2005 through 2013 with a weighted average interest rate of 11.9%	7,463	8,481
Other due 2005 through 2011 with a weighted average interest rate of 5.7%	104,634	106,289
Total debt	1,551,741	1,178,834
Less: current maturities	(68,237)	(23,956)
Long-term debt	$1,483,504	$1,154,878

20 (In Part): Fair Value of Financial Instruments

The following table presents fair value information about certain financial instruments, whether or not recognized on the balance sheet. Fair values are determined as described below. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The fair value amounts presented do not purport to represent and should not be considered representative of the underlying "market" or franchise value of the Company. The methods and assumptions used to estimate the fair values of each class of the financial instruments described below are as follows:

f) Long-Term and Other Indebtedness

The fair values of non-variable rate debt are estimated using quoted market prices and estimated rates which would be available to the Company for debt with similar terms. The fair value of variable rate debt is estimated to be the carrying amount.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2004 and 2003 are as follows (in thousands):

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Investments:				
Current	$1,106,322	$1,106,322	$714,363	$714,363
Non-current	726,782	726,782	673,742	673,742
Cash and cash equivalents	486,948	486,948	214,390	214,390
Notes receivable:				
Current	1,697	1,697	2,283	2,283
Non-current	—	—	16,142	16,142
Loan receivables of banking and lending subsidiaries, net of allowance:				
Current	1,733	1,733	19,803	21,086
Non-current	1,625	1,625	161,413	174,376
Financial liabilities:				
Customer banking deposits:				
Current	18,472	18,658	103,331	104,904
Non-current	6,119	6,251	42,201	44,004
Debt:				
Current	68,237	68,639	23,956	23,988
Non-current	1,483,504	1,596,752	1,154,878	1,158,701
Securities sold not owned	50,569	50,569	48,816	48,816
Derivative instruments:				
Interest rate swaps	(2,342)	(2,342)	(3,079)	(3,079)
Foreign currency swaps	(5,878)	(5,878)	(4,943)	(4,943)

OTHER CURRENT LIABILITIES

2.191 Table 2-27 summarizes other identified current liabilities. The most common types of other current liabilities are: liabilities related to discontinued operations, accrued interest, warranties and deferred revenue.

2.192

TABLE 2-27: OTHER CURRENT LIABILITIES

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Costs related to discontinued operations/restructuring	163	151	157	130
Deferred revenue	144	127	116	106
Interest	141	130	122	119
Warranties	122	126	104	71
Taxes other than federal income taxes	121	117	112	106
Insurance	96	89	76	58
Deferred taxes	72	69	61	46
Customer advances, deposits	63	64	60	68
Advertising	63	60	51	55
Dividends payable	62	56	52	58
Derivatives	61	52	45	37
Environmental costs	53	48	50	45
Litigation	47	30	37	25
Rebates	45	40	21	14
Billings on uncompleted contracts	30	19	18	15
Royalties	22	20	19	15
Due to affiliated companies	14	22	20	20
Other—described	167	153	164	154

Costs Related to Discontinued Operations/Restructuring

2.193

PEERLESS MFG. CO. (JUN)

(Dollars in thousands)	2004	2003
Current liabilities:		
Accounts payable	$ 9,791	$13,793
Billings in excess of costs and earnings on uncompleted contracts	399	2,027
Commissions payable	844	1,041
Income taxes payable	557	53
Product warranties	982	846
Accrued liabilities and other	1,923	2,828
Current liabilities of discontinued operations	306	864
Total current liabilities	$14,802	$21,452

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

Note D. Discontinued Operations

During the first quarter of fiscal 2004, the Board of Directors authorized the divestiture, and the Company sold certain assets of its Boiler business segment with a net book value of approximately $110, for $250, resulting in a gain on disposal of $140.

The following represents a summary of operating results and the gain on disposition of the Boiler segment presented as discontinued operations:

	2004	2003	2002
Revenues	$ 360	$ 4,316	$14,576
Cost of goods sold	833	4,711	13,623
Gross margin (loss)	(473)	(395)	953
Operating expenses	289	1,680	3,610
Operating loss	(762)	(2,075)	(2,657)
Other income	—	47	62
Income tax benefit	(306)	(738)	(905)
Net loss from operations	(456)	(1,290)	(1,690)
Gain on disposal, net of taxes	92	—	—
Net loss	$ (364)	$(1,290)	$ (1,690)
Diluted loss per share			
Net loss from operations	$(0.15)	$ (0.43)	$ (0.55)
Net gain on disposal	$ 0.03	$ —	$ —
Net loss	$(0.12)	$ (0.43)	$ (0.55)

The current and non-current assets and liabilities of the discontinued boiler segment are as follows:

	2004	2003
Accounts receivable, principally trade—net of allowance for uncollectible accounts of $10 at June 30, 2004 and $650 at June 30, 2003	$225	$2,631
Costs and earnings in excess of billings on uncompleted contracts	—	129
Current assets of discontinued operations	225	2,760
Equipment, net	9	30
Other	—	121
Total assets of discontinued operations	$234	$2,911
Accounts payable	$ —	$ 336
Commissions payable	6	78
Product warranties and start-up reserves	300	450
Total current liabilities of discontinued operations	$306	$ 864

Deferred Revenue

2.194

THE SERVICEMASTER COMPANY (DEC)

(In thousands)	2004	2003
Current liabilities:		
Accounts payable	$ 76,053	$ 86,963
Accrued liabilities:		
Payroll and related expenses	113,366	89,427
Self-insured claims and related expenses	86,554	73,320
Income taxes payable	152,841	
Other	111,092	100,454
Deferred revenue	443,238	419,915
Liabilities of discontinued operations	21,536	14,380
Current portion of long-term debt	23,247	33,781
Total current liabilities	$1,027,927	$818,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Revenue

Revenue from lawn care, pest control, liquid and fumigation termite applications, as well as heating/air conditioning and plumbing services are recognized as the services are provided. Revenue from landscaping services are recognized as they are earned based upon monthly contract arrangements or when services are performed for non-contractual arrangements. Revenue from the Company's commercial installation contracts, primarily relating to HVAC and electrical installations are recognized using the percentage of completion method in the ratio that total incurred costs bear to total estimated costs. The Company eradicates termites through the use of baiting stations, as well as through non-baiting methods (e.g., fumigation or liquid treatments). Termite services using baiting stations as well as home warranty services frequently are sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for warranty contracts) are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Revenue from trade name licensing arrangements is recognized when earned. Franchised revenue (which in the aggregate represents less than three percent of consolidated revenue) consists principally of continuing monthly fees based upon the franchisee's customer level revenue. Monthly fee revenue is recognized when the related customer level revenue is reported by the franchisee and collectibility is assured. Franchise revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed and are recognized as revenue when collectibility is assured and all material services or conditions relating to the sale have been substantially performed. Total franchise fee profits (excluding trade name licensing) comprised 10.1, 10.5 and 9.4 percent of consolidated operating income (without the impairment charge in 2003) before headquarter overheads in 2004, 2003 and 2002, respectively.

The Company had $443 million and $420 million of deferred revenue at December 31, 2004 and 2003, respectively, which consist primarily of payments received for annual contracts relating to home warranty, termite baiting, pest control and lawn care services. The revenue related to these services is recognized over the contractual period as the direct costs emerge, such as when the services are performed or claims are incurred.

Interest

2.195

UNIVISION COMMUNICATIONS INC. (DEC)

(In thousands)	2004	2003
Current liabilities:		
Accounts payable and accrued liabilities	$229,493	$209,373
Income taxes	2,226	6,050
Accrued interest	23,110	23,224
Accrued license fees	13,623	13,327
Deferred advertising revenues	—	4,250
Program rights obligations	18,323	26,762
Current portion of long-term debt and capital lease obligations	4,740	5,647
Total current liabilities	$291,515	$288,633

Product Warranties

2.196

B/E AEROSPACE, INC. (DEC)

(In millions)	2004	2003
Current liabilities:		
Accounts payable and accrued liabilities	$152.6	$131.0
Current portion of long-term debt	1.5	1.9
Total current liabilities	$154.1	$132.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

1 (In Part): Summary of Significant Accounting Policies

Product Warranty Costs

Estimated costs related to product warranties are accrued at the time products are sold. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims and the cost to replace or repair its products under warranty. The following table provides a reconciliation of the activity related to the Company's accrued warranty expense:

	2004	2003	2002
Balance at beginning of period	$11.9	$ 8.9	$11.3
Acquisitions	1.0	—	—
Charges to costs and expenses	6.5	6.7	2.5
Costs incurred	(6.2)	(3.7)	(4.9)
Balance at end of period	$13.2	$11.9	$ 8.9

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2004	2003
Accounts payable	$ 75.0	$ 59.0
Accrued salaries, vacation and related benefits	16.0	16.0
Accrued interest	14.1	17.0
Accrued product warranties	13.2	11.9
Accrued acquisition and restructuring expenses	—	2.9
Other accrued liabilities	34.3	24.2
	$152.6	$131.0

Taxes Other Than Federal Income Taxes

2.197

AVON PRODUCTS, INC. (DEC)

(In millions)	2004	2003
Current liabilities		
Debt maturing within one year	$ 51.7	$ 244.1
Accounts payable	490.1	400.1
Accrued compensation	164.5	149.5
Other accrued liabilities	360.1	332.6
Sales and taxes other than income	154.4	139.5
Income taxes	304.7	341.2
Total current liabilities	$1,525.5	$1,607.0

Insurance

2.198

ALBERTSON'S, INC. (JAN)

(In millions)	2005	2004
Current liabilities:		
Accounts payable	$2,250	$2,045
Salaries and related liabilities	739	659
Self-insurance	263	209
Current maturities of long-term debt and capital lease obligations	238	520
Other current liabilities	595	470
Total current liabilities	$4,085	$3,903

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Self-Insurance

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

Deferred Taxes

2.199

VF CORPORATION (DEC)

(In thousands)	2004	2003
Current liabilities		
Short-term borrowings	$ 42,830	$ 33,948
Current portion of long-term debt	401,232	1,144
Accounts payable	369,937	315,219
Accrued liabilities	558,215	438,939
Total current liabilities	$1,372,214	$789,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes are provided on Net Income for financial reporting purposes. Income taxes are based on amounts of taxes payable or refundable in the current year and on expected future tax consequences of events that are recognized in financial statements in different periods than they are recognized in tax returns. As a result of timing of recognition and measurement differences between financial accounting standards and income tax laws, temporary differences arise between the amounts of pretax financial statement income and taxable income and between reported amounts of assets and liabilities in the Consolidated Balance Sheets and their respective tax bases. Net deferred income tax assets reported in the Consolidated Balance Sheets reflect estimated future tax effects attributable to these temporary differences and carryforwards, based on tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are used to reduce these net deferred tax assets to amounts considered likely to be realized. U.S. deferred income taxes are not provided on undistributed income of foreign subsidiaries where such earnings are considered to be permanently invested. The provision for Income Taxes also includes estimated interest expense related to tax deficiencies and assessments.

Note Q (In Part): Income Taxes

Deferred income tax assets and liabilities consist of the following:

(In thousands)	2004	2003
Deferred income tax assets:		
Employee benefits	$ 50,126	$ 41,993
Inventories	19,036	22,280
Other accrued expenses	162,584	159,663
Minimum pension liability	73,985	99,425
Operating loss carryforwards	110,446	91,720
Foreign currency translation	—	26,214
	416,177	441,295
Valuation allowance	(67,475)	(67,810)
Deferred income tax assets	348,702	373,485
Deferred income tax liabilities:		
Depreciation	34,346	39,636
Intangible assets	158,841	87,538
Other	64,262	36,047
Deferred income tax liabilities	257,449	163,221
Net deferred income tax assets	$ 91,253	$210,264
Amounts included in consolidated balance sheets:		
Current assets	$ 99,338	$ 92,828
Current liabilities	(4,468)	—
Noncurrent assets	12,476	117,436
Noncurrent liabilities	(16,093)	—
	$ 91,253	$210,264

As of the end of 2004, VF has not provided deferred U.S. income taxes on $318.0 million of undistributed earnings of international subsidiaries where such earnings are considered to be permanently invested. Such undistributed earnings would become taxable in the United States if it becomes advantageous for business, tax or foreign exchange reasons to remit foreign cash balances to the United States. VF has undertaken initiatives resulting in a reduced effective tax rate on earnings of one of VF's foreign subsidiaries. The income tax benefit from this tax status was $16.5 million ($0.15 per diluted share) in 2004, $10.8 million ($0.10 per share) in 2003 and $13.3 million ($0.12 per share) in 2002. The tax status providing this benefit is scheduled to expire at the end of 2009.

VF has $190.2 million of foreign operating loss carryforwards expiring $6.9 million in 2005, $17.5 million in 2006, $9.5 million in 2007, $1.0 million in 2008 and $4.2 million in 2009, with the remainder having an unlimited carryforward life. A valuation allowance has been provided where it is more likely than not, based on an evaluation of currently available information, that the deferred tax assets relating to those loss carryforwards will not be realized. Interest income in 2003 included $5.7 million related to settlement of federal income tax issues.

The American Jobs Creation Act of 2004 ("the Act") was signed into law in late 2004. The Act contains a temporary incentive for repatriation of foreign earnings during 2005 at a 5.25% effective income tax rate. At the end of 2004, VF had approximately $375 million of accumulated foreign earnings subject to repatriation. If VF were to decide to remit some or all of these earnings during 2005, it would result in an additional one-time income tax expense ranging up to $16 million. Management is evaluating its unremitted foreign earnings and the provisions of the Act.

Advances/Deposits

2.200

WYNDHAM INTERNATIONAL, INC. (DEC)

(In thousands)	2004	2003
Current liabilities:		
Trade accounts payable	$ 17,186	$ 28,609
Accrued payroll costs	49,928	45,866
Dividends payable	102,322	73,100
Accrued insurance and property taxes	41,884	40,559
Other accrued expenses	91,928	61,875
Advance deposits	36,637	33,006
Borrowings associated with assets held for sale	114,251	118,133
Current portion of borrowings under credit facility, term loans, mortgage notes and capital lease obligations	685,145	292,661
Total current liabilities	$1,139,281	$693,809

Advertising

2.201

IOMEGA CORPORATION (DEC)

(In thousands)	2004	2003
Current liabilities:		
Accounts payable	$ 35,166	$ 38,000
Margin on deferred revenue	9,886	9,953
Marketing program accruals	7,550	8,588
Accrued payroll, vacation and bonus	7,460	10,104
Accrued warranty	5,537	5,225
Accrued restructuring charges	4,438	8,162
Accrued excess purchase commitments	2,759	4,744
Other accrued liabilities	27,977	34,563
Income taxes payable	664	3,531
Total current liabilities	$101,437	$122,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) (In Part): Significant Accounting Policies

Marketing Program Accruals

The Company, as part of its normal operations, has entered into contracts with many of the Company's distribution and retail customers whereby the customer is allowed to use a set percentage of its purchases of the Company's products for various marketing purposes, referred to as "cooperative advertising" or "market development funds" ("MDF"). The purpose of these contracts is to encourage advertising and promotional events to promote the sale of the Company's products to end users. The Company also contracts with various third parties to support these customer programs. The Company accrues for the estimated costs of these marketing programs with the customers and third parties in accordance with the contractual percentage of product sold to the respective customer and the estimated support costs during the period that the product is sold or the period that the support costs are incurred. During the period, the customer and Company develop and approve specific marketing programs to utilize the cooperative advertising or MDF funds in a manner intended to best promote the Company's products. On a quarterly basis, the Company evaluates the adequacy of these marketing program accruals to cover known marketing programs that the Company has agreed to pay and/or share costs with the customer. In addition, the Company evaluates the specific programs for proper classification of these costs in accordance with EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products."

Advertising

The Company expenses the cost of advertising as it is incurred, except cooperative advertising or MDF with distributors and retailers, which are accrued at the time of sale. For the years ended December 31, 2004, 2003 and 2002 advertising expenses totaled $14.0 million, $15.8 million and $29.7 million, respectively.

Dividends

2.202

SBC COMMUNICATIONS INC. (DEC)

(Dollars in millions)	2004	2003
Current liabilities		
Debt maturing within one year	$ 5,734	$ 1,879
Accounts payable and accrued liabilities	10,038	10,658
Accrued taxes	1,787	402
Dividends payable	1,065	1,033
Liabilities of discontinued operations	310	328
Total current liabilities	$18,934	$14,300

Derivatives

2.203

AMPCO-PITTSBURGH CORPORATION (DEC)

(In thousands)	2004	2003
Current liabilities:		
Accounts payable	$15,446	$11,178
Accrued payrolls and employee benefits	8,715	7,933
Other	17,009	14,931
Total current liabilities	$41,170	$34,042

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 1 (In Part): Accounting Policies

Financial Instruments

Derivative instruments which include forward exchange and futures contracts are recorded in the consolidated balance sheets as either an asset or a liability measured at their fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is designated and effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the derivative is deferred in accumulated other comprehensive loss. Any portion considered to be ineffective, including that arising from the unlikelihood of an anticipated transaction to occur, is reported as a component of earnings (other income/expense) immediately. Upon occurrence of the anticipated transaction, the derivative designated and effective as a cash flow hedge is de-designated as a fair value hedge, the change in fair value previously deferred in accumulated other comprehensive loss is reclassified to earnings (net sales) and subsequent changes in fair value are recorded as a component of earnings (other income/expense). To the extent that a derivative is designated and effective as a hedge of an exposure to changes in fair value, the change in the derivative's fair value will be offset in the statement of operations by the change in the fair value of the item being hedged and is recorded as a component of earnings (other income/expense). The Corporation does not enter into derivative transactions for speculative purposes and, therefore, holds no derivative instruments for trading purposes.

Note 6 (In Part): Other Current Liabilities

	2004	2003
Customer-related liabilities	$ 5,991	$ 5,674
Commissions	1,966	2,080
Forward exchange contracts at fair value	1,881	2,335
Other	7,171	4,842
	$17,009	$14,931

Note 13. Financial Instruments

Forward Foreign Exchange and Futures Contracts

Certain of the Corporation's operations are subject to risk from exchange rate fluctuations in connection with sales in foreign currencies. To minimize this risk, forward foreign exchange contracts are purchased which are designated as fair value or cash flow hedges. As of December 31, 2004, approximately $59,249 of anticipated foreign denominated sales have been hedged with the underlying contracts settling at various dates beginning in 2005 through December 2009. As of December 31, 2004, the fair value of contracts expected to settle within the next 12 months which is recorded in other current liabilities approximated $1,881 and the fair value of the remaining contracts which is recorded in other noncurrent liabilities approximated $4,766. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of other comprehensive income (loss) and approximated $(3,662), net of income taxes, as of December 31, 2004. The change in fair value will be reclassified into earnings when the projected sales occur with approximately $(1,004) expected to be released to earnings in 2005. Approximately $(1,588), $(1,306) and $0 was released to pre-tax earnings in 2004, 2003 and 2002, respectively. Additionally, approximately $(270) was ineffective in 2004 and released to pre-tax earnings.

Gains (losses) on foreign exchange transactions approximated $(296), $(206) and $264 for 2004, 2003 and 2002, respectively.

In addition, one of the Corporation's subsidiaries is subject to risk from increases in the price of a commodity (copper) used in the production of inventory. To minimize this risk, futures contracts are entered into which are designated as cash flow hedges. At December 31, 2004, approximately 100% or $2,440 of anticipated commodity purchases over the next 12 months are hedged. The fair value of the contracts expected to be settled within the next 12 months approximated $430 and the fair value of the remaining contracts approximated $9 as of December 31, 2004. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of other comprehensive income (loss) and approximated $275, net of income taxes, as of December 31, 2004. The change in fair value will be reclassified into earnings when the projected sales occur with approximately $270 expected to be released to earnings in 2005. Approximately $909, $107, $(145) was released to pre-tax earnings in 2004, 2003 and 2002, respectively.

Fair Value of Financial Instruments

The fair market value of forward foreign currency exchange contracts is determined based on the fair value of similar contracts with similar terms and remaining maturities. The fair value of futures contracts is based on market quotations. The fair value of other financial instruments classified as current assets or current liabilities approximates their carrying values due to the short-term maturity of these instruments. The fair value of the variable rate IRB debt approximates its carrying value.

Environmental Costs

2.204

HONEYWELL INTERNATIONAL INC. (DEC)

(Dollars in millions)	2004	2003
Current liabilities:		
Accounts payable	$2,564	$2,240
Short-term borrowings	28	152
Commercial paper	220	—
Current maturities of long-term debt	956	47
Accrued liabilities	4,971	4,314
Total current liabilities	$8,739	$6,753

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

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

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not provide future benefits, are expensed as incurred. Liabilities are recorded when environmental remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. The undiscounted liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 2004 were $267 and $628 million, respectively, and at December 31, 2003 were $90 and $503 million, respectively.

Note 14. Accrued Liabilities

	2004	2003
Compensation and benefit costs	$ 538	$ 386
Customer advances	545	516
Income taxes	216	145
Environmental costs	267	90
Asbestos related liabilities	744	730
Severance	97	171
Product warranties and performance guarantees	270	242
Other	2,294	2,034
	$4,971	$4,314

Note 21 (In Part): Commitments and Contingencies

Environmental Matters

We are subject to various federal, state, local and foreign government requirements relating to the protection of the environment. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and personal injury and that our handling, manufacture, use and disposal of hazardous or toxic substances are in accord with environmental and safety laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, have incurred remedial response and voluntary cleanup costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing toxic substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future.

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

Although we do not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that these environmental matters will have a material adverse effect on our consolidated financial position.

In the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.*, the United States District Court for the District of New Jersey held in May 2003 that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Honeywell appealed the Court's decision to the Third Circuit Court of Appeals (Appeals Court). As disclosed in prior SEC filings, we believed that the District Court-ordered remedy would be remanded, reversed or replaced and, accordingly, provisions previously made in our financial statements for remedial costs at this site did not assume excavation and offsite removal of chromium. On February 18, 2005, the Appeals Court denied Honeywell's appeal. In light of the Appeals Court decision, we recorded a pre-tax charge of $278 million in the fourth quarter of 2004, which reflects the incremental cost of implementing the Court-ordered remedy. Implementation of the excavation and offsite removal remedy is expected to take place over a five-year period, and the cost of implementation is expected to be incurred evenly over that period. We do not expect implementation of the remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In November 2004, the New York State Department of Environmental Conservation (the DEC) issued its Proposed Plan for remediation of industrial contamination in the Lake. There will be a public comment period until March 1, 2005, and the Proposed Plan is subject to review by the U.S. Environmental Protection Agency. The DEC is currently expected to issue its Record of Decision in the first half of 2005.

The Proposed Plan calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004 (the May 2004 Feasibility Study). Although the Proposed Plan calls for additional remediation in certain parts of the Lake, it would not require the most extensive dredging alternatives described in the May 2004 Feasibility Study. The DEC's aggregate cost estimate is based on the high end of the range of potential costs for major elements of the Proposed Plan and includes a contingency. The actual cost of the Proposed Plan will depend upon, among other things, the resolution of certain technical issues during the design phase of the remediation, expected to occur sometime in 2007 and beyond.

Based on currently available information and analysis performed by our engineering consultants, our estimated cost of implementing the remedy set forth in the Proposed Plan is consistent with amounts previously provided for in our financial statements. Our estimating process considered a range of possible outcomes and amounts recorded reflect our best estimate at this time. We do not believe that this matter will have, a material adverse impact on our consolidated financial position. Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements.

Litigation

2.205

LUCENT TECHNOLOGIES INC. (SEP)

(In millions)	2004	2003
Accounts payable	$ 872	$1,072
Payroll and benefit-related liabilities	1,232	1,080
Debt maturing within one year	1	389
Other current liabilities	2,361	2,393
Total current liabilities	$4,466	$4,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Supplementary Financial Information

Supplementary Balance Sheet Information

(In millions)	2004	2003
Deferred revenue	$ 593	$ 507
Shareholder lawsuit settlement	572	481
Warranty reserve	221	244
Contracts in process	102	—
Restructuring	88	115
Other	785	1,046
Other current liabilities	$2,361	$2,393

13 (In Part): Commitments and Contingencies

Legal Proceedings

We are subject to legal proceedings, lawsuits, and other claims, including proceedings by government authorities. In addition, we may be subject to liabilities of some of our former affiliates under separation agreements with them. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Consequently, unless otherwise indicated, we are unable to estimate the ultimate aggregate amounts of monetary liability or financial impact with respect to these matters as of September 30, 2004. As described below, we have received final court approval for the settlement of our securities and related litigation. The impact of other pending litigation matters that we agreed to settle during the year were not material individually or in the aggregate to our results of operations or financial condition. We believe that the remainder of the cases will not have a material financial impact on our results of operations or financial condition after final disposition. However, because of the uncertainties of legal proceedings, one or more of these proceedings could ultimately result in a material obligation.

Securities and Related Cases

On March 27, 2003, we announced that we reached an agreement to settle 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. The primary class period is October 26, 1999 through December 20, 2000. We did not admit nor deny any wrongdoing as part of the settlement. We received final approval of the settlement from the U.S. District Court in Newark, New Jersey, on December 12, 2003. All appeals of this order are resolved, and on November 9, 2004, the court approved the plaintiffs' plan of distribution. The distribution is scheduled to occur during the first or second quarter of fiscal 2005.

The agreement is a global settlement of 53 separate lawsuits, incluidng 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. Under the settlement agreement, we will pay $315 million in common stock, cash or a combination of both, at our option. On December 24, 2003, we deposited 33 million shares of our common stock into escrow, representing the initial $100 million payment of the settlement amount. These shares were subsequently sold in the market by the escrow agent for $105 million during the second quarter of fiscal 2004 and the net proceeds remain in escrow.

We will also issue warrants to purchase 200 million shares of our common stock at an exercise price of $2.75 per share with an expiration date three years from the date of issuance. The estimated fair value of these warrants was $252 million, based upon the Black-Scholes option-pricing model as of September 30, 2004. We also paid $5 million for the cost of settlement administration. We will also pay for certain other costs involved in the issuance of securities.

In addition to our contributions, certain of our insurance carriers agreed to pay their available policy limits of $148 million into the settlement fund. Our former affiliate, Avaya Inc., contributed shares of its common stock valued at $24 million to the settlement during September 2004. We continue to pursue a partial recovery of the settlement from our fiduciary insurance carriers under certain insurance policies. We filed a lawsuit against them to recover these amounts. We settled with two of the carriers for $40 million and are continuing to pursue our claim against a third carrier that provided additional coverage up to $20 million.

The charge for the global settlement will be revised in future quarters to reflect any additional recoveries, as well as to reflect additional changes in the fair value of the warrants until the warrants are issued. The estimated fair value of the warrants may continue to change as a result of fluctuations in the share price of our common stock.

We will defend any lawsuits that may be brought by parties that have opted out of the settlement. We and certain of our current and former officers and directors are defendants in two such actions in the U.S. District Court in New Jersey, *Staro Asset Management, LLC v. Lucent Technologies Inc. et al., and Florida State Board of Administration v. Lucent Technologies Inc. et al.*, alleging violations of federal securities laws. These cases were originally part of the global settlement referred to above. However, the plaintiffs opted out of the settlement and are pursuing their claims separately against Lucent and the other defendants. Other cases have been and may continue to be brought by individual investors opting out of the settlement.

Rebates

2.206

SEQUA CORPORATION (DEC)

(Amounts in thousands)	2004	2003
Current liabilities		
Current maturities of long-term debt	$ 520	$ 2,508
Accounts payable	186,858	163,097
Taxes on income	22,016	21,363
Liabilities of discontinued operations	—	20,403
Accrued expenses (Note 11)	176,983	160,465
Total current liabilities	$386,377	$367,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Accrued Expenses

Sequa's accrued expenses consist of the following items:

(Amounts in thousands)	2004	2003
Salaries and wages	$ 58,804	$ 44,864
Interest	25,443	25,429
Current portion of pension liabilities	—	7,250
Restructuring	1,707	3,809
Current portion of environmental liabilities	6,000	5,000
Current portion of casualty insurance liabilities	6,700	6,600
Warranty	8,634	7,580
Customer rebates	17,051	13,874
Royalties	2,860	3,148
Insurance	5,742	6,889
Taxes other than income	6,100	5,255
Other	37,942	30,767
	$176,983	$160,465

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Customer rebate agreements are primarily based on sales volume. Most agreements are annual in nature although certain monthly, three-month and six-month agreements exist. Rebate-related charges are accrued monthly over the specific agreement period based on actual and/or forecasted sales volumes. Rebate charges are netted against sales in the Consolidated Statement of Operations.

Billings in Excess of Uncompleted Contract Costs

2.207

NATIONAL-OILWELL, INC. (DEC)

(In millions)	2004	2003
Current liabilities:		
Current portion of long-term debt	$150.0	$ 14.9
Accounts payable	407.7	220.5
Customer prepayments	27.9	26.4
Accrued compensation	37.0	25.4
Billings in excess of costs	32.0	49.3
Accrued income taxes	33.0	24.7
Other accured liabilities	112.6	91.0
Total current liabilities	$800.2	$452.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation

Summary of Significant Accounting Policies (In Part)

Revenue Recognition

Product and service sales are recognized on purchase orders or contracts when product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Our arrangements do not include right of return or other similar provisions or other significant post delivery obligations. Customer advances or deposits are deferred and recognized as revenue when we have completed all of our performance obligations related to the sale. The amounts billed for shipping and handling costs are included in revenue and related costs are included in costs of sales.

Contracts to design and construct complex rig packages to a customers' specifications are recorded on the percentage-of-completion method using an output based measure focused on engineering estimates and manufacturing progress. This method is used because we believe this is the most meaningful measurement of the extent of progress loward completion. This methodology requires us to make estimates regarding the total costs of the project, our progress against the project schedule and the estimated completion date, all of which impact the amount of revenue and gross margin we recognize in each reporting period. Contract costs include all direct material, labor and subcontract costs. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. Provisions for anticipated losses on uncompleted contracts are recorded in full when such losses become evident.

The asset, "Costs in excess of billings," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs," represents billings in excess of revenues recognized.

Asset Retirement Obligation

2.208

CLEVELAND-CLIFFS INC (DEC)

(In millions)	2004	2003
Current liabilities		
Current portion of long-term debt	$ —	$ 25.0
Accounts payable	73.3	64.7
Accrued employment costs	41.3	33.8
Other post-retirement benefits	34.9	22.3
Pensions	31.0	5.3
State and local taxes	21.9	12.6
Accrued expenses	21.7	18.0
Environmental and mine closure obligations	6.0	10.2
Payables to associated companies	4.6	2.5
Other	22.4	17.2
Total current liabilities	$257.1	$211.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Accounting and Disclosure Changes (In Part)

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

Note 5 (In Part): Environmental and Mine Closure Obligations

At December 31, 2004, the Company, including its share of unconsolidated ventures, had environmental and mine closure liabilities of $99.0 million, of which $6.0 million was classified as current. Payments in 2004 were $6.4 million (2003–$7.5 million; 2002–$8.3 million). Following is a summary of the obligations:

(In millions)	2004	2003
Environmental	$13.0	$15.5
Mine closure		
LTV Steel Mining Company	33.8	37.1
Operating mines	52.2	45.2
Total mine closure	86.0	82.3
Total environmental and mine closure*	$99.0	$97.8

* Includes $10.6 million and $9.7 million at December 31, 2004 and 2003, respectively, of the Company's share of unconsolidated ventures.

Mine Closure

The mine closure obligation of $86.0 million includes the accured obligation at December 31, 2004 for a closed operation formerly known as the LTV Steel Mining Company ("LTVSMC") and for the Company's six operating mines. The closure obligation results from an October 2001 transaction where subsidiaries of the Company received a net payment of $50.0 million and certain other assets and assumed environmental and certain facility closure obligations of $50.0 million, which at December 31, 2004, have declined to $33.8 million as a result of expenditures totaling $16.2 million since 2001 ($3.3 million in 2004).

The accrued closure obligation for the Company's active mining operations of $52.2 million reflects the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," which was effective January 1, 2002, to provide for contractual and legal obligations associated with the eventual closure of the mining operations and the effects of mine ownership increases in 2002. The Company determined the obligations, based on detailed estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated to the estimated closure dates and then discounted using a credit adjusted risk-free interest rate of 10.25 percent (12.0 percent for United Taconite). The closure date for each location was determined based on the exhaustion date of the remaining economic iron ore reserves. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated mine lives for each location. Upon adoption on January 1, 2002, the Company's share of the obligation, including its unconsolidated ventures, was a present value liability, $17.1 million, a net increase to plant and equipment, $.4 million, and net cumulative effect charge, $13.4 million. The net cumulative effect charge reflected the offset of $3.3 million of accruals made under the Company's previous mine closure accrual method.

The following summarizes the Company's asset retirement obligation liability at December 31:

(In millions)	2004	2003
Asset retirement obligation at beginning of year	$45.2	$36.1
Accretion expense	4.6	3.6
Additional ownership		2.4
Minority interest	.2	1.0
Revision in estimated cash flows	2.2	2.1
Asset retirement obligation at end of year	$52.2	$45.2

LONG-TERM DEBT

2.209 Table 2-28 summarizes the types of long-term debt most frequently disclosed by the survey companies.

2.210 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*.

2.211 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 17 disclosures of covenant violations.

2.212 *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of long-term debt unless it is not practicable to estimate the value. 509 survey companies made 661 fair value disclosures. 275 of those disclosures used market or broker quotes of long-term debt to determine fair value. 295 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. 16 of those disclosures estimated fair value using other valuation methods. 233 disclosures presented carrying amounts which approximated fair value of long-term debt. In addition there were 263 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.

2.213 *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.

2.214 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.

2.215 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.

2.216 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.

2.217

TABLE 2-28: LONG-TERM DEBT

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Unsecured				
Notes	439	427	438	445
Debentures	157	168	182	165
Foreign	82	82	86	101
Loans	75	78	96	79
Commercial paper	53	59	60	85
Bonds	24	31	30	25
ESOP loans	20	26	31	34
Collateralized				
Capitalized leases	245	230	241	247
Notes or loans	97	95	88	77
Mortgages	56	50	53	55
Convertible				
Notes	76	77	76	59
Debentures	60	54	48	45

Unsecured

2.218

ECOLAB INC. (DEC)

(Thousands)	2004	2003	2002
Total current liabilities	$939,547	$851,942	$853,828
Long-term debt	645,445	604,441	539,743
Postretirement health care and pension benefits	270,930	249,906	207,596
Other liabilities	297,733	227,203	164,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Balance Sheet Information

(Thousands)	2004	2003	2002
Long-term debt			
6.875% notes, due 2011	$149,228	$149,101	$148,974
5.375% Euronotes, due 2007	404,716	364,399	299,777
7.19% senior notes, due 2006	74,715	75,017	75,000
Other	21,938	19,877	29,144
	650,597	608,394	552,895
Long-term debt, current maturities	(5,152)	(3,953)	(13,152)
Total	$645,445	$604,441	$539,743

The company has a $450 million multicurrency credit agreement with a consortium of banks that has a term through August 2009. Under certain circumstances, this credit agreement can be increased by $150 million for a total of $600 million. Prior to October 2004, the company had two similar agreements in place which provided $450 million of available credit. The company may borrow varying amounts in different currencies from time to time on a revolving credit basis. The company has the option of borrowing based on various short-term interest rates. This agreement includes a covenant regarding the ratio of total debt to capitalization. No amounts were outstanding under these agreements at year-end 2004, 2003 and 2002.

This credit agreement supports the company's $450 million U.S. commercial paper program and its $200 million European commercial paper program. The company had $8.8 million and $64.1 million in outstanding U.S. commercial paper at December 31, 2004 and 2002, respectively, with average annual interest rates of 1.2 percent and 1.4 percent, respectively. There was no U.S. commercial paper outstanding at December 31, 2003. The company had no commercial paper outstanding under its European commercial paper program at December 31, 2004 and 2003. Both programs were rated A-1 by Standard & Poor's and P-1 by Moody's as of December 31, 2004.

In December 2004, the company terminated a third commercial paper program, its 200 million Australian dollar commercial paper program. The company had 50.0 million of Australian dollar denominated commercial paper outstanding at December 31, 2003 and 2002 (in U.S. dollars, approximately $36 million and $28 million, respectively), with average annual interest rates of 5.1 percent and 4.8 percent, respectively.

In February 2002, the company issued euro 300 million ($265.9 million at rates prevailing at that time) of 5.375 percent Euronotes, due February 2007. As described further in Note 8, the company accounts for the transaction gains and losses related to the Euronotes as a component of the cumulative translation account within accumulated other comprehensive income (loss).

As of December 31, the weighted-average interest rate on notes payable was 5.7 percent in 2004, 6.3 percent in 2003 and 4.6 percent in 2002.

As of December 31, 2004, the aggregate annual maturities of long-term debt for the next five years were: 2005–$5,152,000; 2006–$79,708,000; 2007–$408,264,000; 2008–$1,906,000 and 2009–$789,000.

Interest expense was $48,479,000 in 2004, $49,342,000 in 2003 and $47,210,000 in 2002. Interest income was $3,135,000 in 2004, $3,997,000 in 2003 and $3,315,000 in 2002. Total interest paid was $47,014,000 in 2004, $47,428,000 in 2003 and $45,056,000 in 2002.

Note 8 (In Part): Financial Instruments

Fair Value of Other Financial Instruments

The carrying amount and the estimated fair vlaue of other financial instruments held by the company were:

(Thousands)	2004	2003	2002
Carrying amount			
Cash and cash equivalents	$ 71,231	$ 85,626	$ 49,205
Accounts receivable	738,266	626,002	553,154
Notes payable	42,180	30,050	54,847
Commercial paper	8,800	36,200	92,100
Long-term debt (including current maturities)	650,597	608,394	552,895
Fair value			
Long-term debt (including current maturities)	$690,066	$656,576	$588,003

The carrying amounts of cash equivalents, accounts receivable, notes payable and commercial paper approximate fair value because of their short maturities.

The fair value of long-term debt is based on quoted market prices for the same or similar debt instruments.

2.219

H.B. FULLER COMPANY (NOV)

(In thousands)	2004	2003
Total current liabilities	$293,449	$200,026
Long-term debt, excluding current installments	138,149	161,047
Accrued pensions	88,964	87,354
Other liabilities	45,922	35,471
Minority interests in consolidated subsidiaries	15,816	14,352
Total liabilities	$582,300	$498,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

6 (In Part): Notes Payable, Long-Term Debt and Lines of Credit

Long-Term Debt

Long-Term Debt, Including Capital Lease Obligations	Weighted-Average Interest Rate	Maturity Date	2004	2003
U.S. dollar obligations:				
Senior notes	7.03%	2005–2010	$159,000	$159,000
Various other obligations	7.25%	2005–2006	1,003	2,194
Foreign currency obligations:				
Japanese yen	4.2%	2009	1,066	1,222
Capital lease obligations		2004	—	14
Total long-term debt			161,069	162,430
Less: current installments			(22,920)	(1,383)
Total			$138,149	$161,047

Long-term debt had an estimated fair value of $147,505 and $170,633 as of November 27, 2004 and November 29, 2003, respectively. The fair value of long-term debt is based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of similar maturities. The estimated fair value of these long-term obligations is not necessarily indicative of the amount that would be realized in a current market exchange. Long-term debt consisted primarily of senior notes with various other obligations making up the balance. In addition to this outstanding long-term debt, total long-term committed lines of credit at November 27, 2004 equaled $148,000 and of this amount none was utilized.

Lines of Credit

Term	Committed	Drawn	Unused
Short-term	$152,444	$8,183	$144,261
Long-term	148,000	—	148,000
Total	$300,444	$8,183	$292,261

A set of revolving credit agreements with a group of major banks accounted for $271,000 of the committed lines of credit. The $271,000 of revolving credit agreements consisted of $148,000 in long-term committed lines and $123,000 in short-term committed lines.

- At November 27, 2004 the long-term portion of the revolving credit agreements equaled $148,000 and provided committed long-term credit through December of 2005. At the company's option, interest is payable at the London Interbank Offered Rate plus 0.850%–1.250%, adjusted quarterly based on the company's debt-to-EBITDA ratio, or a bid rate. A facility fee of 0.075%–0.150% is payable quarterly. No amounts were drawn at November 27, 2004.
- At November 27, 2004 the short-term portion of the revolving credit agreements equaled $123,000. Subsequent to year-end, the company renegotiated the short-term portion of the revolving credit agreements. At the company's option, interest is payable at the London Interbank Offer Rate plus 0.850–1.250%, adjusted quarterly based on the company's debt-to-EBITDA ratio, or bid rate. A facility fee of 0.150%–0.250% is payable quarterly. No amounts were drawn at November 27, 2004.

In addition to the $271,000 of revolving credit agreements referred to above, the company had $29,444 of committed credit facilities, comprised mostly of foreign short-term facilities. The major lines in these foreign short-term facilities carried a weighted-average interest rate of 6.6% and a maturity of December 31, 2004. There are no facility fees associated with these lines.

On February 3, 2005, the company repaid $22,000 of its senior notes. This principal amount is included in the current installments of long-term debt at November 27, 2004.

The most restrictive debt agreements place limitations on secured and unsecured borrowings, operating leases, and contain minimum interest coverage, current assets and net worth requirements. In addition, the company cannot be a member of any "consolidated group" for income tax purposes other than with its subsidiaries. At November 27, 2004 all financial covenants were met.

Maturities of long-term debt for the next five fiscal years follow.

Fiscal Year	2005	2006	2007	2008	2009	Thereafter
Long-term debt obligations	$22,920	$25,479	$25,240	$25,240	$25,107	$37,083

Shelf Registration

On September 24, 2002, the company registered with the Securities and Exchange Commission to issue, at an indeterminate date, debt and/or equity securities with an aggregate initial offering price not to exceed $500,000.

2.220

SONOCO PRODUCTS COMPANY (DEC)

(Dollars in thousands)	2004	2003
Total current liabilities	$639,886	$679,594
Long-term debt	813,207	473,220
Pension and other postretirement benefits	148,214	137,494
Deferred income taxes	168,776	165,773
Other liabilities	118,357	50,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

9. Debt

Debt at December 31 was as follows:

	2004	2003
Commercial paper, average rate of 1.40% in 2004	$180,000	$
6.5% debentures due November 2013	250,879	248,861
7.0% debentures due November 2004		149,681
6.75% debentures due November 2010	99,898	99,880
5.625% debentures due November 2016	157,014	
9.2% debentures due August 2021	41,305	41,305
6.125% IRBs due June 2025	34,650	34,627
6.0% IRBs due April 2026	34,329	34,297
Foreign denominated debt, average rate of 8.5% in 2004 and 6.0% in 2003	93,640	49,875
Other notes	15,246	16,061
Total debt	906,961	674,587
Less current portion and short-term notes	93,754	201,367
Long-term debt	$813,207	$473,220

The Company currently operates a commercial paper program totaling $350,000 and has fully committed bank lines of credit supporting the program by a like amount. In July 2004, the Company entered into a new five-year, $350,000 credit agreement that also provides the Company with the option to increase its credit line to $450,000 subject to the concurrence of its lenders. It is the Company's intent to indefinitely maintain line of credit agreements fully supporting its commercial paper program. The five-year term on the new line of credit allows commercial paper borrowings up to the maximum amount of the line of credit to be classified as long-term debt. In 2003, the Company's commercial paper program totaled $450,000 with a 364-day backstop line of credit of the same amount that could be extended under a term-out option. This credit line expired in July 2004 and was replaced by the five-year line of credit discussed above. At December 31, 2004, the amount of the Company's commercial paper that was outstanding was $180,000. The Company had no commercial paper outstanding at December 31, 2003.

In June 2004, the Company made a private placement offering of $150,000 notes. These notes, which have an interest rate of 5.625%, are due in 2016. Under the terms of the sale of the notes, the Company was required to take appropriate steps to offer to exchange other notes with the same terms that have been registered with the SEC for the private placement notes. The exchange was completed in February 2005.

Additionally, the Company repaid its 7.0% debentures upon their maturity in November 2004.

Certain of the Company's debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires that net worth at the end of each fiscal quarter be greater than $883,000, increased by 25% of net income after March 28, 2004, and decreased by stock purchases after July 7, 2004. Based on this calculation, the Company was $242,157 above the minimum level of $910,722, required under this covenant as of December 31, 2004. The Company's current backstop credit line excludes from the above net worth covenant any charge to shareholders' equity arising from minimum pension liability adjustments for its U.S. defined benefit pension plan. No such charge existed for the Company's U.S. defined benefit pension plan at December 31, 2003 or 2002.

The Company had committed availability under unused short-term lines of credit in the amount of approximately $117,359 at December 31, 2004. These short-term lines of credit are for general Company purposes, with interest at mutually agreed-upon rates.

The approximate principal requirements of debt maturing in the next five years are: 2005–$93,754, 2006–$2,057, 2007–$1,801, 2008–$1,203, and 2009–$1,495.

10 (In Part): Financial Instruments

The following table sets forth the carrying amounts and fair values of the Company's significant financial instruments where the carrying amount differs from the fair value.

	2004		2003	
	Carrying Amount of Liability	Fair Value of Liability[(1)]	Carrying Amount of Liability	Fair Value of Liability[(2)]
Long-term debt	$813,207	$880,223	$473,220	$526,693

[(1)] The fair value of long-term debt at December 31, 2004, does not include the impact of interest rate swaps. The fair value of long-term debt is $861,430 when the impact of interest rate swaps is included.
[(2)] Interest rate swaps did not impact the fair value of long-term debt at December 31, 2003.

The fair value of cash and cash equivalents, short-term debt and long-term variable-rate debt approximates fair value. The fair value of long-term debt is based on quoted market prices or by discounting future cash flows using interest rates available to the Company for issues with similar terms and average maturities.

Collateralized

2.221

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

(Dollars in thousands)	2004	2003
Total current liabilities	$1,073,920	$1,090,612
Long-term debt	823,738	803,277
Long-term obligations under capital leases	73,980	83,485
Other non-current liabilities	393,088	409,672
Total liabilities	$2,364,726	$2,387,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Indebtedness

Debt consists of the following:

	2004	2003
9.375% notes, due August 1, 2039	$200,000	$200,000
9.125% senior notes, due December 15, 2011	216,500	230,500
7.75% notes, due April 15, 2007	219,515	229,265
7.70% senior notes, due January 15, 2004	—	22,100
On balance sheet financing, due February 2021 through February 2026	181,442	—
Deferred gain from termination of interest rate swaps	7,600	10,008
Mortgages and other notes, due 2003 through 2018 (average interest rates at year end of 8.00% and 7.58%, respectively)	1,676	3,204
U.S. bank borrowings at 4.125%	—	135,000
Less unamortized discount on 7.75% notes	(724)	(980)
	826,009	829,097
Less current portion of long-term debt	(2,271)	(25,820)
Long-term debt	$823,738	$803,277

During fiscal 2003, we amended and restated our Secured Credit Agreement (the "Amended and Restated Credit Agreement") and decreased our borrowing base to $400 million. Thus, at February 28, 2004, we had a $400 million secured revolving credit agreement with a syndicate of lenders enabling us to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This amended facility provides us with greater operating flexibility and provides for increased capital spending. Under the Amended and Restated Credit Agreement, there are no financial covenants as long as availability under the agreement exceeds $50 million.

The Amended and Restated Credit Agreement is comprised of a U.S. credit agreement amounting to $330 million and a Canadian credit agreement amounting to $70 million (C$93.5 million at February 28, 2004) and is collateralized by inventory, certain accounts receivable and certain pharmacy scripts. Borrowings under the Amended and Restated Credit Agreement bear interest based on LIBOR and Prime interest rate pricing. This agreement expires in December 2007.

As of February 28, 2004, there were no borrowings under these credit agreements. As of February 28, 2004, after reducing availability for outstanding letters of credit and borrowing base requirements, we had $213.0 million available under the Amended and Restated Credit Agreement.

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During fiscal 2003, we sold 13 properties and simultaneously leased them back from the purchaser resulting in an on balance sheet financing. Refer to Note 16—Sale-Leaseback Transactions for further discussion of this transaction.

As of February 28, 2004 and February 22, 2003, we had no borrowings under uncommitted lines of credit.

The net book value of real estate pledged as collateral for all mortgage loans amounted to nil at February 28, 2004 and $3.2 million at February 22, 2003. The net book value of real estate pledged as collateral for our $400 million Secured Credit Agreement amounted to $22.8 million at February 28, 2004 and $82.9 million at February 22, 2003 under the prior year agreement. This decrease in properties pledged as collateral is mainly due to the sale of properties in fiscal 2003 as part of our sale leaseback transaction.

We currently have active Registration Statements dated January 23, 1998 and June 23, 1999, allowing us to offer up to $75 million of debt and/or equity securities as of February 28, 2004 at terms contingent upon market conditions at the time of sale.

Maturities for the next five fiscal years and thereafter are: 2004–$2.3 million; 2005–$2.3 million; 2006–$2.2 million; 2007–$219.9 million; 2008–$0.1 million; 2009 and thereafter–$599.2 million. Interest payments on indebtedness were approximately $63 million for fiscal 2003, $68 million for fiscal 2002 and $60 million for fiscal 2001.

Note 9. Fair Value of Financial Instruments

The estimated fair values of our financial instruments are as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9.375% notes, due August 1, 2039	$200,000	$180,080	$200,000	$135,600
9.125% senior notes, due December 15, 2011	216,500	186,731	230,500	186,705
7.75% notes, due April 15, 2007	218,791	197,743	228,285	182,628
7.70% senior notes, due January 15, 2004	—	—	22,100	21,216
On balance sheet financing due February 2021 through February 2026	181,442	181,442	—	—
Mortgages and other notes, due 2003 through 2018	1,676	1,676	3,204	3,204
U.S. bank borrowings at 4.125%	—	—	135,000	135,000

Fair value for the public debt securities is based on quoted market prices. As of February 28, 2004 and February 22, 2003, the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

Note 10 (In Part): Lease Obligations

We operate primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. In addition, we also lease some store equipment and trucks. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels.

The Consolidated Balance Sheets include the following:

	2004	2003
Property under capital leases	$ 179,667	$ 178,491
Accumulated amortization	(114,035)	(106,685)
Net property under capital leases	$ 65,632	$ 71,806

During fiscal 2003 and fiscal 2001, we did not enter into any new capital leases. During fiscal 2002, we entered into new capital leases totaling $9 million. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the Consolidated Statements of Cash Flows. Interest paid as part of capital lease obligations was approximately $10 million in fiscal 2003, $11 million in fiscal 2002 and $13 million in fiscal 2001.

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Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 28, 2004 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, we sublease 63 stores to the franchise business. Included in the operating lease column in the table below are the rental payments to be made by our Company partially offset by the rental income to be received from the franchised stores.

Fiscal	Capital Leases	Operating Leases
2004	$ 24,414	$ 246,063
2005	14,901	242,292
2006	13,443	236,770
2007	11,732	228,292
2008	10,336	215,962
2009 and thereafter	101,673	2,112,548
	176,499	$3,281,927
Less executory costs	(201)	
Net minimum rentals	176,298	
Less interest portion	(86,417)	
Present value of net minimum rentals	$ 89,881	

Note 16 (In Part): Sale-Leaseback Transactions

During fiscal 2001, we sold 7 properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately $42.7 million. Net proceeds received related to these transactions amounted to approximately $50.8 million. Of the 7 properties sold, 4 were sold for a profit resulting in a gain after deducting expenses of $11.0 million. Three properties in the aforementioned transaction were sold at a loss of $4.5 million after expenses. The majority of this loss was related to one of these properties, which was anticipated at the end of fiscal 2000, and, accordingly, was recognized in full at that time since the carrying value of such property exceeded its fair value less the cost of disposal. In addition, during fiscal 2001, we sold 2 properties and simultaneously leased them back from the purchaser which were originally recorded as off balance sheet operating leases. However, due to our Company's continuing involvement with these 2 properties, in the fourth quarter of fiscal 2003, an adjustment was made to record these two transactions as financings under the provisions of SFAS 66 "Accounting for Sales of Real Estate" ("SFAS 66"). The impact of these adjustments was immaterial to the fourth quarter and fiscal 2003 as well as to the prior periods to which they relate. The carrying value of these 2 properties of approximately $8.3 million has been recorded on our Consolidated Balance Sheet and the sale has been reversed. In addition, the sales prices of these properties of $14.9 million have been recorded as financing obligations with maturities of 17 and 22 years, respectively, within "Long term debt" on our Consolidated Balance Sheet at February 28, 2004.

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On February 27, 2004, we sold 13 properties and simultaneously leased them back from the purchaser. However, due to our Company's continuing involvement with these properties, the sale did not qualify for sale-leaseback accounting in accordance with SFAS 98, "Accounting for Leases" but rather as a financing under the provisions of SFAS 66. In accordance with SFAS 66, the carrying value of these properties of approximately $73.6 million remained on our Consolidated Balance Sheet and no sale was recognized. Instead, the sales price of these properties of $166.5 million was recorded as a financing obligation with a maturity of 20 years, with the exception of one property that has a maturity of 22 years, within "Long term debt" on our Consolidated Balance Sheet at February 28, 2004. In addition, all lease payments are being expensed to "Interest expense" in our Consolidated Statements of Operations. Of the 13 properties sold, all were sold for a profit resulting in a gain, after deducting expenses, which has been deferred and will not be recognized until the end of the respective leases when our continuing involvement ceases.

We expect to enter into similar transactions for other owned properties from time to time in the future.

2.222

MERRIMAC INDUSTRIES, INC. (DEC)

	2004	2003
Total current liabilities	$4,463,291	$4,295,416
Long-term debt, net of current portion	2,778,135	4,208,106
Deferred compensation	53,739	88,362
Deferred liabilities	33,974	48,014
Deferred tax liabilities	648,000	542,000
Total liabilities	$7,977,139	$9,181,898

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Current and Long-Term Debt

The Company was obligated under the following debt instruments at January 1, 2005 and January 3, 2004:

	2004	2003
The CIT Group/Business Credit, Inc.[(A)]:		
Revolving line of credit, interest 1/2% above prime	$ —	$ 498,416
Term loan A, due October 8, 2008, variable interest above LIBOR or prime	1,075,000	1,425,000
Term loan B, due October 8, 2010, variable interest above LIBOR or prime	2,258,930	2,651,786
The Bank of Nova Scotia[(B)]:		
Capital leases, interest 6.7%, due October 2004	—	43,339
Capital leases, interest 8.7%, due June 2005	117,539	180,841
Capital leases, interest 7.3%, due April 2006	124,125	161,287
Capital leases, interest 7.9%, due June 2006	107,481	136,628
First Insurance Funding Corp:		
Note payable, insurance premiums, interest 6.75% due April 2004	—	65,214
	3,683,075	5,162,511
Less current portion	904,940	954,405
Long-term portion	$2,778,135	$4,208,106

(A) The financing agreement with CIT consists of a $5,000,000 revolving line of credit, that is temporarily reduced by $250,000 until certain conditions are met; a $1,500,000 machinery and equipment term loan ("Term Loan A") and a $2,750,000 real estate term loan ("Term Loan B"). In connection with this financing agreement, the Company was required to place, over the life of the loan, $1,500,000 as restricted cash with CIT. The revolving line of credit is subject to an availability limit under a borrowing base calculation (85% of eligible accounts receivable as defined in the financing agreement plus 100% of the $1,500,000 restricted cash). At January 1, 2005, the Company had available borrowing capacity under its revolving line of credit of $4,200,000. The revolving line of credit bears interest at-the prime rate plus 1/2 percent (currently 6.25%). The principal amount of Term Loan A is payable in 60 equal monthly installments of $25,000 and bears interest at the prime rate plus one percent (currently 6.75%). The principal amount of Term Loan B is payable in 84 equal monthly installments of $32,738 and bears interest at the prime rate plus one percent (currently 6.75%). At January 1, 2005, the Company, under the terms of its agreement with CIT, elected to convert $900,000 of Term Loan A and $2,100,000 of Term Loan B from their prime rate base to LIBOR-based interest rate loans. The current LIBOR interest rate options were renewed on October 12, 2004 for six months at an interest rate of 5.49%. The current LIBOR interest rate options will expire April 11, 2005. The revolving line of credit and the term loans are secured by substantially all of the Company's assets located within the United States and the pledge of 65% of the stock of the Company's subsidiaries located in Costa Rica and Canada. The provisions of the financing agreement require the Company to maintain certain financial and other covenants. The Company was in compliance with these covenants at January 1, 2005.

(B) Capital leases included in property, plant and equipment, net, have a depreciated cost of approximately $611,000 at January 1, 2005 and $590,000 at January 3, 2004.

At January 1, 2005 and January 3, 2004, the fair value of the Company's debt approximates carrying value. The fair value of the Company's long-term debt is estimated based on current interest rates.

The payments now required under the long-term obligations listed above during the years following January 1, 2005 are set forth below:

2005	$ 904,940
2006	829,917
2007	692,856
2008	567,856
2009	392,856
Thereafter	294,650
	$3,683,075

Convertible

2.223

CORNING INCORPORATED (DEC)

(In millions)	2004	2003
Total current liabilities	$2,336	$1,553
Long-term debt (Note 11)	2,214	2,668
Postretirement benefits other than pensions	600	619
Other liabilities	715	412
Total liabilities	$5,865	$5,252

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Debt

(In millions):	2004	2003
Short-term borrowings, including current portion of long-term debt		
Short-term borrowings		$ 26
Current portion of long-term debt	$ 478	120
Total	$ 478	$146
Long-term debt		
Euro notes, 5.625%, due 2005	$ 189	$ 173
Debentures, 7%, due 2007, net of unamortized discount of $15 million in 2004 and $20 million in 2003	85	80
Convertible notes, 4.875%, due 2008	96	96
Convertible debentures, 3.50%, due 2008	297	665
Notes, 6.3%, due 2009	150	150
Euro notes, 6.25%, due 2010	408	374
Debentures, 6.75%, due 2013	100	100
Debentures, 5.90%, due 2014	200	
Zero coupon convertible debentures, 2%, due 2015, redeemable and callable in 2005	272	385
Debentures, 6.20%, due 2016	200	
Debentures, 8.875%, due 2016	81	82
Debentures, 8.875%, due 2021	82	83
Debentures, 7.625%, due 2024	1	100
Medium-term notes, average rate 8.1%, due through 2025	175	178
Debentures, 6.85%, due 2029	150	150
Other, average rate 3.4%, due through 2015	206	172
Total long-term debt	2,692	2,788
Less current portion of long-term debt	478	120
Long-term debt	$2,214	$2,668

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was $2.8 billion at December 31, 2004.

The following table shows debt maturities by year at December 31, 2004 (in millions):

2005	2006	2007	2008	2009	Thereafter
$478	$16	$104	$411	$166	$1,517

We have convertible debt of $297 million due November 1, 2008 that is convertible into approximately 31 million shares of common stock at an effective conversion price of $9.675 per share. The debentures are available for conversion into 103.3592 shares of Corning common stock for each $1,000 debenture. The debentures are issued at par and pay interest of 3.5% semi-annually on May 1 and November 1 of each year. Effective November 8, 2004, we may call the debentures at any time, at specified redemption prices. The holder can convert the debenture into Corning common stock at any time prior to maturity or redemption.

We have $272 million of zero coupon convertible debentures outstanding. The initial price of the debentures was $741.92 with a 2% annual yield. Interest is compounded semi-annually with a 25% conversion factor. The debentures mature on November 8, 2015, and are convertible into approximately 3 million shares of Corning common stock at the rate of 8.3304 shares per $1,000 debenture. We may call the debentures at any time on or after November 8, 2005. The debentures may be put to us for $819.54 on November 8, 2005 and $905.29 on November 8, 2010. We have the option of settling this obligation in cash, common stock, or a combination of both. The holder can convert the debenture into Corning common stock at any time prior to maturity or redemption. The zero coupon convertible debentures are presented in the above table as due in 2005 which is the earliest possible redemption date.

We also have $96 million of convertible subordinated notes bearing interest at 4.875%, due in 2008. The notes are convertible into 6 million shares of Corning common stock at a conversion price of approximately $16 per share.

Debt Retirements

During the years ended December 31, 2004, 2003 and 2002, we retired a significant portion of our outstanding 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)
2004 activity:				
Convertible debentures, 3.5%, due 2008	$ 368	$ 37	38	$ (36)
Zero coupon convertible debentures, 2%, due 2015	119	117		
Total 2004 activity	$ 487	$ 154	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)
Total 2003 activity	$1,306	$1,189	6	$ 19
2002 activity:				
Zero coupon convertible debentures, 2%, due 2015	$ 493	$ 308		$175
Euro notes, 5.625%, due 2005	1	1		1
Total 2002 activity	$ 494	$ 309		$176

In addition to the above repurchases, during 2004 we repaid approximately $99 million of our 7.625% debentures as a result of certain bond holders exercising their early repayment option. The remaining balance of the bonds that were not repaid will mature in 2024.

Debt Covenant Violation

2.224

XO COMMUNICATIONS, INC. (DEC)

(Dollars in thousands)	2004	2003
Total current liabilities	$329,542	$271,417
Long-term debt and accrued interest payable	366,247	536,791
Other long-term liabilities	73,691	76,532
Total liabilities	$769,480	$884,740

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Long-Term Debt

The Company has a secured credit facility (the "Credit Facility") which matures on July 15, 2009. There are no additional borrowings available under the Credit Facility. At December 31, 2004, more than 90% of the underlying loans of the Credit Facility are held by an entity controlled by Mr. Carl C. Icahn, Chairman of the Company's Board of Directors ("Mr. Icahn"). At December 31, 2004, long-term debt consisted of $361.0 million in principlal and $5.2 million of accrued interest that, if not paid, converts to principal. The Company paid down the Credit Facility by $197.6 million in January 2004. There are no current debt service requirements since cash interest payments as well as automatic and permanent quarterly reductions on the principal amount outstanding do not commence until 2009. However, in the event that consolidated excess cash flow (as defined in the Credit Facility) for any fiscal quarter during the term of the agreement is greater than $25.0 million, at the request of the lender, the Company will pay an amount equal to 50% of such excess cash flow greater than $25.0 million toward the reduction of outstanding indebtedness. In addition, if the ratio of XO's consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense for four consecutive quarters exceeds 4:1, XO would be required to pay cash interest, unless waived by the lenders.

The security for the Credit Facility consists of all assets of XO including the stock of its direct and indirect subsidiaries, and substantially all the assets of those subsidiaries. The Credit Facility limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to EBITDA requirements, as the term EBITDA is defined in the Credit Facility, and maximum capital expenditures. In addition, the Company was required to achieve a minimum consolidated FBITDA of not less than $62.0 million for the twelve-month period ended December 31, 2004, which requirement was not met by the Company. On August 3, 2004 the lender waived the applicability of the minimum EBITDA covenant for each quarter from March 31, 2004 through December 31, 2005. The Credit Facility has various contractual financial covenants, which XO did not meet in 2004 and for which XO has obtained waivers through December 31, 2005. If XO is not able to do any of the following by May 10, 2005 (i) amend the Credit Facility covenants, (ii) obtain an extension on the current waivers to at least March 31, 2006, or (iii) repay the Credit Facility with a new debt or equity offering, so that XO is in compliance, under the current accounting guidelines, XO will be required to reclassify the $366.2 million amount outstanding from long term to short term in its March 31, 2005 Form 10-Q. While the existing waivers prevent the lenders under the Credit Facility from demanding payment until March 31, 2006, this reclassification would cause a significant deterioration to XO's disclosed working capital and financial position. The Company is also required under the terms of the Credit Facility to maintain an unrestricted cash balance of $25.0 million at the end of each fiscal quarter.

The Company obtained on the Closing Date the waiver and consent of the lenders with respect to the following covenants contained in the Credit Facility and subject to XO providing updated collateral descriptions and legal opinions not later than November 22, 2004: (i) the $25.0 million limitation on the incurrence of permitted indebtedness, permitted equipment financings, acquired debt, and capital leases; (ii) the limitation on the incurrence of additional liens with respect to liens on the Allegiance assets that remained in place following the effective date of the Allegiance plan of reorganization; (iii) the restriction on making acquisitions in excess of $50.0 million; (iv) the requirement that accounts acquired as part of the Allegiance acquisition be subject to control agreements until November 22, 2004; and (v) any noncompliance arising from the entering into of an Operating Agreement with Allegiance.

As discussed above, the Company is not required to pay cash interest accrued on the principal amount under the Credit Facility until it meets certain financial ratios; however, the Company can elect to begin paying interest in cash prior to the required date. Loans under the Credit Facility bear interest, at the Company's option, at an alternate base rate, as defined, or a Eurodollar rate plus, in each case, applicable margins. Once the Company begins to pay accrued interest in cash, the applicable margins are reduced. At December 31, 2004, the annualized weighted average interest rate applicable to outstanding borrowings under the Credit Facility was 7.77%.

CREDIT AGREEMENTS

2.225 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:

2.226

TABLE 2-29: CREDIT AGREEMENTS

	2004	2003	2002	2001
Disclosing credit agreements	533	533	540	554
Not disclosing credit agreements	67	67	60	46
Total Companies	**600**	**600**	**600**	**600**

2.227

BANTA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Short-Term Debt

The Corporation generally obtains short-term financing through the issuance of commercial paper and borrowing against lines of credit with banks. At January 1, 2005, the Corporation had short-term credit facilities totaling $83 million. Of this total, $75 million represents a credit facility made available by three banks, which can be used to support both commercial paper and unsecured borrowing; $5 million represents a facility in place to support the issuance of letters of credit and to meet short-term liquidity needs; and the remaining $3 million is comprised of secured credit facilities denominated in Euros and Pounds Sterling, which can be used to finance the Corporation's European operations. The Corporation had $4 million of letters of credit outstanding as of January 1, 2005, and January 3, 2004. As of January 1, 2005, and January 3, 2004, the Corporation had no short-term borrowings outstanding. During the fourth quarter of 2004, the Corporation had a maximum of $10 million outstanding under short-term credit facilities, all of which was repaid prior to January 1, 2005.

2.228

HARRAH'S ENTERTAINMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, unless otherwise stated)

Note 7 (In Part): Debt

Long-term debt consisted of the following as of December 31:

	2004	2003
Credit facilities		
3.07%–4.25% at December 31, 2004, maturities to 2009	$1,580,000	$ 947,800
Secured debt		
7.1%, maturity 2028	92,377	93,622
3.71%–6.95%, maturities to 2033	1,348	607
Unsecured senior notes		
5.5%, maturity 2010	744,034	—
5.375%, maturity 2013	496,773	496,504
7.125%, maturity 2007	496,504	498,780
7.5%, maturity 2009	499,109	498,926
8.0%, maturity 2011	496,506	496,079
Unsecured senior subordinated notes		
7.875%, maturity 2005	587,988	590,524
Other unsecured borrowings		
Commercial paper, maturities to 2005	157,800	50,000
Capitalized lease obligations		
7.6%–10.0%, maturities to 2006	470	679
	5,152,909	3,673,521
Current portion of long-term debt	(1,788)	(1,632)
	$5,151,121	$3,671,889

$590.5 million, face amount, of our 7.875% senior subordinated notes due December 2005, are classified as long-term in our Consolidated Balance Sheet as of December 31, 2004, because the Company has both the intent and the ability to refinance these notes.

As of December 31, 2004, aggregate annual principal maturities for the four years subsequent to 2005 were: 2006, $1.7 million; 2007, $498.2 million; 2008, $60.1 million; and 2009, $2.8 billion.

Credit Agreement

At December 31, 2004, we had credit facilities (the "credit agreement") that provided for up to $2.5 billion in borrowings, maturing on April 23, 2009. The credit agreement contains a provision that would allow an increase in the borrowing capacity to $3.0 billion, if mutually acceptable to the Company and the lenders. Interest on the credit agreement is based on our debt ratings and leverage ratio and is subject to change. As of December 31, 2004, the credit agreement bore interest based upon 90 basis points over LIBOR and bore a facility fee for borrowed and unborrowed amounts of 20 basis points, a combined 110 basis points. At our option, we may borrow at the prime rate under the new credit agreement. As of December 31, 2004, $1.58 billion in borrowings were outstanding under the credit agreement with an additional $59.8 million committed to back letters of credit. After consideration of these borrowings, but before consideration of amounts borrowed under the commercial paper program, $860.2 million of additional borrowing capacity was available to the Company as of December 31, 2004.

In January 2005, an agreement was reached to amend the credit agreement, which increased our borrowing capacity from $2.5 billion to $4.0 billion. The amendment also contains a provision that will allow a further increase in the borrowing capacity to $5.0 billion, if mutually acceptable to the Company and the lenders, and lowers the interest rate from LIBOR plus 110 basis points to LIBOR plus 87.5 basis points. The amended agreement becomes effective upon the satisfaction of various closing conditions, including the closing of our acquisition of Caesars. Other significant terms and conditions of the credit agreement, including the maturity date of April 2009, did not change.

Commercial Paper

To provide the Company with cost-effective borrowing flexibility, we have a $200 million commercial paper program that is used to borrow funds for general corporate purposes. Although the debt instruments are short-term in tenor, they are classified as long-term debt because the commercial paper is backed by our credit agreement and we have committed to keep available capacity under our credit agreement in an amount equal to or greater than amounts borrowed under this program. At December 31, 2004, $157.8 million was outstanding under this program.

2.229

THE LAMSON & SESSIONS CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Long-Term Debt and Commitments

Long-term debt consists of the following:

(Dollars in thousands)	2004	2003
Secured credit agreement:		
Term	$ 1,705	$14,300
Revolver	73,295	67,100
	75,000	81,400
Industrial revenue bonds	8,685	9,195
Mortgage	4,066	4,155
	87,751	94,750
Less amounts classified as current	75,875	11,760
	$11,876	$82,990

In August 2000, the Company completed the refinancing of its previous secured credit agreement by entering into a new five-year, $125 million revolving credit agreement with a consortium of banks led by Harris Trust of Chicago. In December 2000, in conjunction with the acquisition of Ameriduct, the agreement was amended and increased to a $194 million facility, consisting of $48.5 million in term debt and $145.5 million in a revolver. As of March 27, 2002 the agreement was amended reducing the credit commitments of the lenders to an aggregate $150 million of which $110 million represents a revolving credit facility with the remainder representing term debt. In addition, this amendment provided for a 1.0% term loan fee and an increase of 1.0% in the term loan interest rate if the term loan was not paid in full by September 30, 2002. Since the term loan was not paid in full by September 2002, the increase in interest rate and additional fee were realized. The term portion of this agreement requires a final principal payment of $1.7 million on March 31, 2005. This agreement is secured by substantially all of the Company's assets. Interest on the revolver portion of the facility is at LIBOR plus 1.5% to 4.0% and LIBOR plus 2.5% to 5.0% for the term portion. The specific rate is determined based on the ratio of indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (leverage ratio) and is calculated quarterly. The average interest rate at January 1, 2005 is 5.95%. In addition to amounts borrowed, letters of credit related to industrial revenue bond financings and other contractual obligations total approximately $14.4 million under the agreement. Total availability at January 1, 2005, under the secured credit agreement, approximates $14.0 million. The Company's credit agreement contains various restrictive covenants pertaining to maintenance of net worth, certain financial ratios and prohibits stock repurchases and dividend payments. At the end of 2004 the Company's leverage ratio of 2.9 did not meet the required covenant level of 2.75. In February 2005, the Company received a waiver and amendment for this deficiency and an increase in the future leverage covenant to 3.1 which reflects current and future working capital requirements. The Company was in compliance with all other debt covenants at January 1, 2005 and is expected to maintain compliance throughout the remainder of the term of the credit agreement. The Company did lower its leverage ratio at the 2004 year-end, which will, in turn, be reflected as a 50 basis point decline in the secured credit agreement interest rate during the first quarter 2005.

2.230

STANDARD COMMERCIAL CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Short-Term Borrowings

(In thousands)	2004	2003
Weighted-average interest on borrowings at end of year	5.5%	4.2%
Weighted-average interest rate on borrowings during the year[(1)]	5.8%	5.1%
Maximum amount outstanding at any month-end	$253,847	$242,027
Average month-end amount outstanding	$215,721	$189,156
Amount outstanding at year-end	$253,847	$182,103

[(1)] Computed by dividing short-term interest expense and amortized financing costs by average short-term debt outstanding.

At March 31, 2004, under agreements with various banks, total short-term credit facilities for continuing operations of $481.1 million (2003–$478.2 million) were available to the Company of which $40.0 million (2003–$22.2 million) was being utilized for letters of credit and guarantees and $187.3 million (2003–$273.9 million) was unused. The Company's revolving credit facilities at March 31, 2004 included a master credit facility for tobacco operations (the "MFA") of $210.0 million, in addition to local lines of approximately $222.4 million. Also, separate facilities totaling $48.7 million are in place for wool operations classified as discontinued operations, but guaranteed by the Company. At March 31, 2004 substantially all of the Company's assets were pledged against current and long-term borrowings.

Since March 31, 2004, the Company has replaced its existing $210 million facility with a new facility and this is included in Note 18 to the audited consolidated financial statements.

10. Long-Term Debt

(In thousands)	2004	2003
8.875% senior notes due in 2005	$65,177	$65,177
2.955% repayable in 2006	7,057	—
2.376% repayable in 2006	2,010	—
2.6% fixed rate repayable through 2012	3,086	3,015
10.5% loan repayable through 2005	2,069	2,959
4.25% loan repayable through 2010	2,946	2,893
9.82% fixed rate loan repayable annually through 2005	300	860
Interest free note repayable through 2005	495	497
9.4% loan repayable through 2008	14,322	5,168
Other	2,828	3,210
	100,290	83,779
Current portion	(8,476)	(5,107)
	$91,814	$78,672

Long-term debt maturing after one year is as follows (in thousands): 2006–$81,494; 2007–$4,206; 2008–$2,189; 2009–$1,828 and thereafter–$2,097. Certain debt agreements to which the Company and its subsidiaries are parties contains certain covenants that, among other things, limit our ability to (i) pay dividends, (ii) incur additional indebtedness, (iii) transfer or issue shares of capital stock of subsidiaries to third parties, (iv) sell assets, (v) issue preferred stock, (vi) incur or assume any liens that secures obligations under any indebtedness on any asset or property, or (vii) merge with or into any person. The Company was in compliance with all financial covenants as of March 31, 2004.

Since March 31, 2004, the senior notes have been repaid by the Company as referred to in Note 18 to the audited consolidated financial statements.

18. Subsequent Events

On April 2, 2004, the Company replaced its $210 million primary global revolving credit facility with a new three year unsecured $150 million global facility with similar terms and conditions. The rate is currently LIBOR plus 2.0%. On April 2, 2004, the Company completed and closed on a new Rule 144A $150 million senior note issue at 8.0%, due 2012. The indentures governing these senior notes contain certain covenants that, among other things, limit the Company's ability to (i) pay dividends, (ii) incur additional indebtedness, (iii) transfer or issue shares of capital stock of subsidiaries to third parties, (iv) sell assets, (v) issue preferred stock, (vi) incur or assume any liens that secures obligations under any indebtedness on any asset or property, or (vii) merge with or into any entity. In May 2004 the proceeds from the senior note issue were used to repay the $8^7/_8$% senior notes due in 2005 and the $7^1/_4$% convertible subordinated debentures due in 2007.

LONG-TERM LEASES

2.231 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*.

2.232 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. 60 survey companies reported lessor leases.

2.233 Examples of long-term lease presentations and disclosures follow.

2.234

TABLE 2-30: LONG-TERM LEASES

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Information Disclosed as to Capitalized Leases				
Minimum lease payments	148	131	122	112
Imputed interest	85	79	85	80
Leased assets by major classifications	29	30	43	44
Executory costs	6	8	7	7
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	556	564	563	548
Sublease	65	63	59	62
Contingent	46	52	53	52
Minimum rental payments				
Schedule of	554	547	543	528
Classified by major categories of property	6	10	11	14
Number of Companies				
Noncapitalized leases only	316	327	331	330
Capitalized and noncapitalized leases	258	242	236	230
Capitalized leases only	9	6	4	6
No leases disclosed	17	25	29	34
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

2.235

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

(Millions of dollars)	2004	2003
Current liabilities		
Payables and accrued liabilities	$1,319.6	$1,123.5
Accrued income taxes	105.9	115.6
Short-term borrowings	35.4	165.7
Current portion of long-term debt	244.7	176.4
Total current liabilities	1,705.6	1,581.2
Long-term debt	2,113.6	2,168.6
Deferred income and other noncurrent liabilities	820.3	1,005.9
Deferred income taxes	788.0	747.2
Total liabilities	$5,427.5	$5,502.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

12 (In Part): Long-Term Debt

The following table shows the company's outstanding debt at the end of 2004 and 2003:

	Maturities	2004	2003
Payable in U.S. dollars:			
Debentures: (effective rate)			
8.50% (8.55%)	2006	$ —	$ 100.0
8.75% (8.95%)	2021	18.4	18.4
Notes: (effective rate)			
7.375% (7.54%)	2005	150.0	150.0
Medium-term notes:			
Weighted average rate			
Series D 6.7%	2007 to 2016	134.0	223.0
Series E 7.6%	2008 to 2026	17.4	17.4
Series F 6.5%	2007 to 2010	133.0	133.0
Series G 4.1%	2010	125.0	—
Other: 2%	2006 to 2038	363.9	348.0
Less: Unamortized discount		(12.8)	(1.8)
Payable in other currencies:			
Eurobonds 6.0%	2005	348.9	571.7
Eurobonds 6.5%	2007	372.8	350.1
Eurobonds 4.25%	2012	372.8	—
Other 4.1%	2005 to 2014	287.0	383.4
Capital lease obligations:			
United States 5.4%	2005 to 2018	17.6	17.0
Foreign 6.5%	2005 to 2007	30.3	34.8
		$2,358.3	$2,345.0
Less current portion		(244.7)	(176.4)
		$2,113.6	$2,168.6

Various debt agreements to which the company is a party include certain financial covenants and other restrictions, including restrictions pertaining to the ability to create property liens and enter into certain sale and leaseback transactions. The company is in compliance with all financial debt covenants.

13 (In Part): Leases

Capital leases, primarily for the right to use machinery and equipment, are included with owned plant and equipment on the balance sheet in the amount of $76.2 and $65.9 at the end of 2004 and 2003, respectively. Related amounts of accumulated depreciation are $40.9 and $33.4, respectively.

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During 2001, the company sold and leased back certain U.S. cryogenic vessel equipment resulting in proceeds of $301.9. This operating lease has a five-year term with purchase and renewal options. The company recognized a deferred gain of $134.7 on this sale-leaseback. This amount was included in other noncurrent liabilities.

At 30 September 2004, minimum payments due under leases are as follows:

	Capital Leases	Operating Leases
2005	$27.9	$ 55.7
2006	7.2	44.7
2007	4.3	22.6
2008	2.2	17.1
2009	1.0	13.2
Thereafter	7.4	75.2
	$50.0	$228.5

The present value of the above future capital lease payments is included in the liability section of the balance sheet. At the end of 2004, $29.9 was classified as current and $18.0 as long term.

2.236

ARDEN GROUP, INC. (DEC)

(In thousands)	2004	2003
Total current liabilities	$41,322	$60,835
Long-term debt	1,764	2,038
Deferred rent	4,872	4,473
Other liabilities	7,601	4,626
Total liabilities	$55,559	$71,972

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment (In Part)

Leased property meeting certain capital lease criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the shorter of the estimated useful life or the initial lease term.

6 (In Part): Property, Plant and Equipment

(In thousands)	2004	2003
Land	$ 8,584	$ 8,584
Buildings and improvements	9,693	9,693
Store fixtures and office equipment	40,049	36,065
Transportation equipment	2,774	2,664
Machinery and equipment	1,268	1,236
Leasehold improvements	45,484	39,206
Leasehold interests	4,538	4,538
Assets under capital leases	3,058	3,058
Assets under construction	761	488
	116,209	105,532
Accumulated depreciation and amortization	(64,998)	(59,895)
	$ 51,211	$ 45,637

As of January 1, 2005, approximately $26,364,000 of property, plant and equipment (at cost) was fully depreciated and is still being used in operations. As of January 1, 2005, the Company has recorded $2,749,000 in accumulated amortization for assets under capital lease.

8 (In Part): Long-Term Debt

	Current		Non-Current	
(In thousands)	2004	2003	2004	2003
Obligations under capital leases	$273	$245	$ 536	$ 810
7% subordinated income debentures due September 1, 2014			1,228	1,228
	$273	$245	$1,764	$2,038

At January 1, 2005, the approximate principal payments required on long-term debt for each fiscal year are as follows:

(In thousands) 2006	2007	2014	Thereafter
$304	$232	$1,228	$1,764

14 (In Part): Leases

The principal kinds of property leased by the Company and its subsidiaries are supermarket buildings. The most significant obligations assumed under the lease terms, other than rental payments, are the upkeep of the facilities, insurance and property taxes. Most supermarket leases contain contingent rental provisions based on sales volume and have renewal options. The Company's decision to exercise renewal options is primarily dependent on the level of business conducted at the location and the profitability thereof.

All leases and subleases with an initial term greater than one year are accounted for under SFAS 13, "Accounting for Leases." These leases are classified as either capital leases, operating leases or subleases, as appropriate.

Assets Under Capital Leases

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. Contingent rentals associated with capital leases in 2004, 2003 and 2002 were $464,000, $428,000 and $235,000, respectively, and accordingly have been charged to expense as incurred. Following is an analysis of assets under capital leases:

(In thousands)	2004	2003
Buildings:		
Cost	$ 3,058	$ 3,058
Accumulated amortization	(2,749)	(2,636)
	$ 309	$ 422

Future minimum lease payments for the assets under capital leases at January 1, 2005 are as follows:

(In thousands)	
2005	$ 347
2006	347
2007	246
Total minimum obligations	940
Interest	(131)
Present value of net minimum obligations	809
Current portion	(273)
Long-term obligations	$ 536

2.237

COCA-COLA BOTTLING CO. CONSOLIDATED (DEC)

(In thousands)	2004	2003
Current liabilities:		
Portion of long-term debt payable within one year	$ 8,000	$ 78
Current portion of obligations under capital leases	1,826	1,337
Accounts payable, trade	30,989	39,493
Accounts payable to The Coca-Cola Company	18,223	11,780
Other accrued liabilities	50,409	51,708
Accrued compensation	17,186	18,999
Accrued interest payable	11,864	10,924
Total current liabilities	138,497	134,319
Deferred income taxes	170,437	156,094
Pension and postretirement benefit obligations	42,361	50,842
Other liabilities	80,401	74,457
Obligations under capital leases	79,202	44,226
Long-term debt	700,039	802,639
Total liabilities	$1,210,937	$1,262,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Leased Property Under Capital Leases

(In thousands)	2004	2003	Estimated Useful Lives
Leased property under capital leases	$84,035	$48,497	1–29 years
Less: accumulated amortization	7,178	5,388	
Leased property under capital leases, net	$76,857	$43,109	

On March 1, 2004, the Company received a renewal option to extend the term of the lease on its corporate headquarters facilities. As disclosed in Note 18 to the consolidated financial statements, these facilities are leased from a related party. As a result of the Company's intent to exercise this renewal option, the Company capitalized the lease as of March 1, 2004. The amount recorded for the capitalization of this lease was $32.4 million.

At the end of June 2004, the Company recorded a capital lease of $4.9 million related to a new facility.

The majority of the leased property under capital leases is real estate and is provided by related parties as described in Note 18 to the consolidated financial statements.

13 (In Part): Commitments and Contingencies

The Company leases office and warehouse space, machinery and other equipment under operating lease agreements which expire at various dates through 2017. These leases generally contain scheduled rent increases or escalation clauses, renewal options, or in some cases, purchase options. The Company leases certain warehouse space and other equipment under capital lease agreements which expire at various dates through 2030. These leases contain scheduled rent increases or escalation clauses. Amortization of assets recorded under capital leases is included in depreciation expense. Leasing is used for certain capital additions when considered cost effective relative to other sources of capital.

The following is a summary of future minimum lease payments for all capital leases and operating leases as of January 2, 2005.

(In thousands)	Capital Leases	Operating Leases	Total
2005	$ 9,089	$ 2,859	$ 11,948
2006	8,926	2,155	11,081
2007	8,833	1,573	10,406
2008	8,985	1,452	10,437
2009	9,141	1,188	10,329
Thereafter	207,592	3,326	210,918
Total minimum lease payments	$252,566	$12,553	$265,119
Less: Amounts representing interest	171,538		
Present value of minimum lease payments	81,028		
Less: current portion of obligations under capital leases	1,826		
Long-term portion of obligations under capital leases	$ 79,202		

18 (In Part): Related Party Transactions

On November 30, 1992, the Company and the previous owner of the Company's Snyder Production Center ("SPC") in Charlotte, North Carolina, who was unaffiliated with the Company, agreed to the early termination of the SPC lease. Harrison Limited Partnership One ("HLP") purchased the property contemporaneously with the termination of the lease, and the Company leased SPC from HLP pursuant to a ten-year lease that was to expire on November 30, 2002, HLP's sole limited partner is a trust of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, is a trustee. On August 9, 2000, a Special Committee of the Board of Directors approved the sale by the Company of property and improvements adjacent to SPC to HLP and a new lease of both the conveyed property and SPC with HLP, which expires on December 31, 2010. The sale closed on December 15, 2000 at a price of $10.5 million. The annual base rent the Company was obligated to pay for its lease of this property is subject to adjustment for increases or decreases in interest rates, using LIBOR as the measurement device.

The Company recorded a capital lease of $41.6 million at the end of the first quarter of 2002 related to this lease as the Company received a renewal option to extend the term of the lease, which it expects to exercise. The principal balance outstanding as of January 2, 2005 was $40.3 million.

The minimum rentals and contingent rental payments that relate to this lease were as follows:

(In millions)	2004	2003	2002
Minimum rentals	$ 4.3	$ 4.2	$ 4.1
Contingent rentals	(1.5)	(1.5)	(1.2)
Total rental payments	$ 2.8	$ 2.7	$ 2.9

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The contingent rentals in 2004, 2003 and 2002 reduce the minimum rentals as a result of decreases in interest rates, using LIBOR as the measurement device. Increases or decreases in lease payments that result from changes in the interest rate factor are recorded as adjustments to interest expense.

On June 1, 1993, the Company entered into a lease agreement with Beacon Investment Corporation ("Beacon") related to the Company's headquarters office facility. Beacon's sole shareholder is J. Frank Harrison, III. On January 5, 1999, the Company entered into a new ten-year lease agreement with Beacon which included the Company's headquarters office facility and an adjacent office facility. On March 1, 2004, the Company recorded a capital lease of $32.4 million related to these facilities. The lease obligation was capitalized because the Company received a renewal option to extend the term of the lease, which it expects to exercise. The principal balance outstanding as of January 2, 2005 was $32.0 million. The annual base rent the Company is obligated to pay under this lease is subject to adjustment for increases in the Consumer Price Index and for increases or decreases in interest rates using the Adjusted Eurodollar Rate as the measurement device.

The minimum rentals and contingent rental payments that relate to this lease were as follows:

(In millions)	2004	2003	2002
Minimum rentals	$3.2	$3.2	$3.2
Contingent rentals	(.3)	(.4)	(.4)
Total rental payments	$2.9	$2.8	$2.8

The contingent rentals in 2004, 2003 and 2002 reduce minimum rentals as a result of decreases in interest rates partially offset by increases in the Consumer Price Index. Increases or decreases in lease payments that result from changes in the Consumer Price Index or changes in the interest rate factor are recorded as adjustments to interest expense beginning in March 2004. Prior to March 2004, changes in the Consumer Price Index or changes in the interest rate factor were recorded as adjustments to rent expense in S,D&A expenses.

Lessee—Operating Leases

2.238

ASHLAND INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F. Leases

Ashland and its subsidiaries are lessees of office buildings, retail outlets, transportation and off-road construction equipment, warehouses and storage facilities, and other equipment, facilities and properties under leasing agreements that expire at various dates. Under various operating leases, Ashland has made guarantees with respect to the residual value of the underlying property. If Ashland had canceled those leases at September 30, 2004, its maximum obligations under the residual value guarantees would have amounted to $98 million. Ashland does not expect to incur any significant charge to earnings under these guarantees, $24 million of which relates to real estate. These lease agreements are with unrelated third party lessors and Ashland has no additional contractual or other commitments to any party to the leases. Capitalized lease obligations are not significant and are included in long-term debt. Future minimum rental payments at September 30, 2004, and rental expense under operating leases follow.

(In millions)

Future Minimum Rental Payments	
2005	$ 47
2006	41
2007	35
2008	28
2009	23
Later years	83
	$257

(In millions)

Rental Expense	2004	2003	2002
Minimum rentals (including rentals under short-term leases)	$104	$98	$103
Contingent rentals	3	3	3
Sublease rental income	(2)	(2)	(2)
	$105	$99	$104

FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued in November 2002. Upon entering new lease agreements with residual value guarantees after December 31, 2002, Ashland is required to record the fair value at inception of these guarantee obligations in accordance with FIN 45. At September 30, 2004 and 2003, the recorded value of such obligations was not significant.

2.239

THE GAP, INC. (JAN)

($ in millions)	2005	2004
Current liabilities		
Current maturities of long-term debt	$ —	$ 283
Accounts payable	1,240	1,178
Accrued expenses and other current liabilities	924	906
Income taxes payable	78	180
Total current liabilities	$2,242	$2,547
Long-term liabilities		
Long-term debt	$ 513	$1,107
Senior convertible notes	1,373	1,380
Lease incentives and other liabilities	984	1,031
Total long-term liabilities	$2,870	$3,518

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Lease Rights and Key Money

Lease rights are costs incurred to acquire the right to lease a specific property. A majority of our lease rights are related to premiums paid to landlords. Lease rights are recorded at cost and are amortized over the estimated useful term of the respective leases. The gross carrying value and accumulated amortization of lease rights was $114 million and $68 million, respectively, as of January 29, 2005, and $120 million and $63 million, respectively, as of January 31, 2004. Lease rights amortization was $8.8 million, $8.9 million and $9.4 million in fiscal 2004, 2003 and 2002, respectively.

Key money is the amount of funds paid to a landlord or tenant to acquire the rights of tenancy under a commercial property lease for a property located in France. Key money represents the "right to lease" with an automatic right of renewal. This right can be subsequently sold by us or can be recovered should the landlord refuse to allow the automatic right of renewal to be exercised. Key money is considered an indefinite life intangible asset that is not amortized. We have key money with a net carrying amount of $54 million as of January 29, 2005 and $52 million as of January 31, 2004.

Lease rights and key money are included in other assets on the Consolidated Balance Sheets.

Rent Expense

Minimum rental expenses are recognized over the term of the lease. We recognize minimum rent starting when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred lease credits. We also receive tenant allowances, which are reflected in lease incentives and other liabilities on the Consolidated Balance Sheets and are amortized as a reduction to rent expense in the Statement of Operations over the term of the lease.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Note E. Leases

We lease most of our store premises and some of our headquarters facilities and distribution centers. These operating leases expire at various dates through 2033. Most store leases are for a five year base period and include options that allow us to extend the lease term beyond the initial base period, subject to terms agreed to at lease inception. Some leases also include early termination options, which can be exercised under specific conditions.

For leases that contain predetermined fixed escalations of the minimum rentals, we recognize the related rental expense on a straight-line basis and record the difference between the recognized rental expense and amounts payable under the leases as deferred lease credits. At January 29, 2005, and January 31, 2004, this liability amounted to approximately $361 million and $362 million, respectively.

Lease payments that depend on factors that are not measurable at the inception of the lease, such as future sales volume, are contingent rentals in their entirety and are excluded from minimum lease payments and included in the determination of total rental expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Cash or rent abatements received upon entering into certain store leases are recognized on a straight-line basis as a reduction to rent expense over the lease term. The unamortized portion is included in deferred lease credits and other liabilities. At January 29, 2005 and January 31, 2004, the long-term deferred credit was approximately $496 million and $543 million, respectively. At January 29, 2005 and January 31, 2004, the short-term deferred credit was approximately $82 million and $83 million, respectively.

The aggregate minimum non-cancelable annual lease payments under leases in effect on January 29, 2005, are as follows:

($ in millions)

Fiscal Year	
2005	$ 945
2006	823
2007	689
2008	605
2009	502
Thereafter	1,767
Total minimum lease commitment	$5,331

Rental expense for all operating leases was as follows:

($ in millions)	2005	2004	2003
Minimum rentals	$819	$808	$816
Contingent rentals	148	146	123
Total	$967	$954	$939

2.240

MARRIOTT INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATMENTS

1 (In Part): Summary of Significant Accounting Policies

Ground Leases

We are both the lessor and lessee of land under long-term operating leases, which include scheduled increases in minimum rents. We recognize these scheduled rent increases on a straight-line basis over the initial lease terms.

12. Leases

We have summarized our future obligations under operating leases at December 31, 2004, below:

($ in millions)

Fiscal Year	
2005	$ 121
2006	112
2007	121
2008	121
2009	115
Thereafter	989
Total minimum lease payments	$1,579

Most leases have initial terms of up to 20 years and contain one or more renewal options, generally for five- or 10-year periods. These leases provide for minimum rentals and additional rentals based on our operations of the leased property. The total minimum lease payments above include $544 million, representing obligations of consolidated subsidiaries that are non-recourse to Marriott International, Inc.

Rent expense consists of:

($ in millions)	2004	2003	2002
Minimum rentals	$216	$201	$222
Additional rentals	93	68	75
	$309	$269	$297

The totals above exclude minimum rent expenses of $8 million and $34 million, and additional rent expenses of $1 million and $4 million, for 2003 and 2002, respectively, related to the discontinued Senior Living Services business. The totals also do not include minimum rent expenses of $42 million for 2002 related to the discontinued Distribution Services business.

Lessor Leases

2.241

JLG INDUSTRIES, INC. (JUL)

(In thousands)	2004	2003
Current assets		
Cash and cash equivalents	$ 37,656	$132,809
Accounts receivable, less allowance for doubtful accounts of $7,814 in 2004 and $7,363 in 2003	362,819	257,519
Finance receivables, less provision for losses of $1,350 in 2004 and $529 in 2003	5,920	3,168
Pledged finance receivables, less provision for losses of $2,642 in 2004 and $2,656 in 2003	31,858	41,334
Inventories	154,405	122,675
Other current assets	41,058	46,474
Total current assets	633,716	603,979
Property, plant and equipment, net	91,504	79,699
Equipment held for rental, net of accumulated depreciation of $9,055 in 2004 and $7,821 in 2003	21,190	19,651
Finance receivables, less current portion	33,747	31,156
Pledged finance receivables, less current portion	86,559	119,073
Goodwill	62,885	29,509
Intangible assets, net of accumulated amortization of $3,181 in 2004	35,240	—
Other assets	62,603	53,135
Total assets	$1,027,444	$936,202

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, unless otherwise indicated)

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. Provisions for warranty are estimated and accrued at the time of sale. Actual warranty costs do not materially differ from estimates.

We enter into rental purchase guarantee agreements ("RPGs") with some of our customers. These agreements are normally for a term of no greater than twelve months and provide for rental payments with a guaranteed purchase option at the end of the agreement. Under the terms of the RPG, the customer is obligated to purchase the equipment at the end of the rental period. The full amount is recorded as revenue and the related cost of the equipment is charged to cost of sales at the inception of the agreement.

Property, Plant and Equipment and Equipment Held for Rental

Property, plant and equipment and equipment held for rental are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method, based on useful lives of 15 years for land improvements, 10 to 20 years for buildings and improvements, three to 10 years for machinery and equipment, and three to seven years for equipment held for rental. Depreciation expense was $22.7 million, $19.8 million and $20.9 million for the fiscal years 2004, 2003 and 2002, respectively.

Note 3. Finance and Pledged Finance Receivables

Finance receivables represent sales-type leases resulting from the sale of our products. Our sales-type leases may have a component of residual value which anticipates that a piece of equipment will have a minimum fair market value at a future point in time and the residual value accrues to us at the end of the lease. We use our experience and knowledge as an original equipment manufacturer and participant in end markets for our products along with third-party studies to provide us with values for our products in the used equipment market and to estimate residual values. We monitor these values for impairment and reflect any resulting adjustments in current earnings.

Our net investment in finance and pledged finance receivables was as follows at July 31:

	2004	2003
Gross finance and pledged finance receivables	$169,472	$205,390
Estimated residual value	21,899	35,337
	191,371	240,727
Unearned income	(29,295)	(42,811)
Net finance and pledged finance receivables	162,076	197,916
Provision for losses	(3,992)	(3,185)
	$158,084	$194,731

Of the total finance and pledged finance receivables balances at July 31, 2004 and 2003, $118.4 million and $160.4 million, respectively, are pledged finance receivables resulting from the monetization of finance receivables. In compliance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," these transactions are accounted for as debt on our Consolidated Balance Sheets. The maximum loss exposure associated with these transactions was $25.2 million as of July 31, 2004. As of July 31, 2004, our provision for losses related to these transactions was $2.6 million.

The following table displays the contractual maturity of our finance and pledged finance receivables. It does not necessarily reflect the timing of future cash collections because of various factors including the possible refinancing or sale of finance receivables and repayments prior to maturity.

For the twelve-month periods ended July 31:

2005	$ 49,160
2006	52,073
2007	37,016
2008	18,782
2009	7,668
Thereafter	4,773
Residual value in equipment at lease end	21,899
Less: unearned finance income	(29,295)
Net investment in leases	$162,076

Provisions for losses on finance and pledged finance receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover losses in the existing receivable portfolio.

Note 19: Limited Recourse Debt From Finance Receivables Monetizations

As a result of the sale of finance receivables through limited recourse monetization transactions during fiscal 2004, 2003 and fiscal 2002, we have $121.8 million of limited recourse debt outstanding as of July 31, 2004. The aggregate amounts of limited recourse debt outstanding at July 31, 2004, which will become due in 2005 through 2009 are: $32.6 million, $35.9 million, $30.0 million, $13.8 million and $5.5 million, respectively.

2.242

PITNEY BOWES INC. (DEC)

(Dollars in thousands)	2004	2003
Current assets:		
Cash and cash equivalents	$ 316,217	$ 293,812
Short-term investments, at cost which approximates market	3,933	28
Accounts receivable, less allowances: 2004, $50,254; 2003, $39,778	567,772	459,106
Finance receivables, less allowances: 2004, $71,001; 2003, $62,269	1,400,593	1,358,691
Inventories	206,697	209,527
Other current assets and prepayments	197,874	192,011
Total current assets	2,693,086	2,513,175
Property, plant and equipment, net	644,495	653,661
Rental equipment and related inventories, net	475,905	414,341
Property leased under capital leases, net	3,081	2,230
Long-term finance receivables, less allowances: 2004, $102,074; 2003, $78,915	1,820,733	1,654,419
Investment in leveraged leases	1,585,030	1,534,864
Goodwill	1,411,381	956,284
Intangible assets, net	323,737	203,606
Other assets	863,132	958,808
Total assets	$9,820,580	$8,891,388

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands or as otherwise indicated)

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

Allowance for Credit Losses

The company estimates its finance receivables risks and provides allowances for credit losses accordingly. The company's financial services businesses establish credit approval limits based on the credit quality of the customer and the type of equipment financed. The company charges finance receivables through the allowance for credit losses after collection efforts are exhausted and the company deems the account uncollectible. The company's financial services businesses base credit decisions primarily on a customer's financial strength and, particularly in its Capital Services programs, the company may also consider collateral values. The company believes that its concentration of credit risk for finance receivables in its internal financing division is limited because of its large number of customers, small account balances and customer geographic and industry diversification.

The company's general policy for finance receivables contractually past due for over 90 days is to discontinue revenue recognition. The company resumes revenue recognition when payments reduce the account to 60 days or less past due. In its Capital Services programs, the company discontinues revenue recognition as soon as it is apparent that the obligor will not be making payments in accordance with lease terms, such as in the event of bankruptcy. Otherwise, the company discontinues revenue recognition when accounts are over 90 days past due.

Fixed Assets and Depreciation

Property, plant and equipment are stated at cost and depreciated principally using the straight-line method over their estimated useful lives: machinery and equipment principally three to 15 years and buildings up to 50 years. Major improvements which add to productive capacity or extend the life of an asset are capitalized while repairs and maintenance are charged to expense as incurred. Rental equipment is depreciated using the straight-line method over its estimated useful life, principally three to ten years. Properties leased under capital leases are amortized on a straight-line basis over the primary lease terms.

Fully depreciated assets are retained in fixed assets and depreciation 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.

Rental Arrangements and Advance Billings

The company rents equipment to its customers, primarily postage meters, mailing equipment and shipping systems under short-term rental agreements, generally for periods of three months to three years. Charges for equipment rental and maintenance contracts are billed in advance; the related revenue is included in advance billings and recorded as revenue on a straight-line basis over the rental period. Ancillary rental and other finance income is recognized as earned.

Rentals Revenue

Product Rentals

The company rents equipment to its customers, primarily postage meters, mailing equipment and shipping systems, under short-term rental agreements, generally for periods of three months to three years. The company invoices in advance the charges for equipment rental. The company defers the billed revenue and includes it initially in advance billings. Rental revenue is recognized on a straight-line basis over the term of the rental agreement.

Financing Revenue

Core financing revenue in the company's Consolidated Statements of Income includes revenue from internal financing arrangements and from core Capital Services. Non-core financing revenue in the company's Consolidated

Statements of Income relates to revenue from non-core Capital Services.

Internal Financing Arrangements

The company provides lease financing of its products in the U.S. and outside the U.S. primarily through sales-type leases. When a sales-type lease is consummated, the company records the gross finance receivable, unearned income and the estimated residual value of the leased equipment. Residual values are estimated based upon the average expected proceeds to be received at the end of the lease term. Management evaluates recorded residual values on an annual basis or as circumstances warrant. A reduction in estimated residual values could require an impairment charge as well as a reduction in future financing income.

Unearned income represents the excess of the gross finance receivable plus the estimated residual value over the sales price of the equipment. The company recognizes the equipment sale at the inception of the lease. The company recognizes unearned income as earned using the interest method over the term of the transaction.

Capital Services Revenue

The company provides financing for non-Pitney Bowes equipment through direct financing leases and leveraged leases.

When a direct financing lease is consummated, the company records the gross finance receivable, unearned income and the estimated residual value of the leased equipment. Unearned income represents the excess of the gross receivable plus the estimated residual value over the cost of the equipment. The company accounts for initial direct costs incurred in consummating a transaction as part of the investment in the lease and amortizes these costs using the interest method over the term of the lease. The company recognizes unearned income as earned using the interest method over the term of the transaction.

From time to time, the company sells selected finance assets. The company follows FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," when accounting for its sale of finance assets. The company recognizes all assets obtained or liabilities incurred in consideration as proceeds of the sale and recognizes any gain or loss on the sale in earnings.

The company's investment in leveraged leases consists of rentals receivable net of principal and interest on the related nonrecourse debt, estimated residual value of the leased property and unearned income. At lease inception, unearned income represents the excess of rentals receivable, net of that portion of the rental applicable to principal and interest on the nonrecourse debt, plus the estimated residual value of the leased property over the company's investment in the transaction. The company recognizes the unearned income as leveraged lease revenue over the lease term.

3. Fixed Assets

	2004	2003
Land	$ 36,681	$ 36,291
Buildings	440,480	401,728
Machinery and equipment	1,279,319	1,237,126
	1,756,480	1,675,145
Accumulated depreciation	(1,111,985)	(1,021,484)
Property, plant and equipment, net	$ 644,495	$ 653,661
Rental equipment and related inventories	$ 1,150,931	$ 1,103,474
Accumulated depreciation	(675,026)	(689,133)
Rental equipment and related inventories, net	$ 475,905	$ 414,341
Property leased under capital leases	$ 8,662	$ 14,942
Accumulated amortization	(5,581)	(12,712)
Property leased under capital leases, net	$ 3,081	$ 2,230

Depreciation expense was $277.7 million, $261.1 million and $236.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. In connection with the company's meter transition plan, the company wrote-off fully depreciated rental equipment during 2004 and 2003.

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. Financial Services

Capital Services Portfolio

The company's investment in Capital Services lease related assets included in its Consolidated Balance Sheets was composed of the following:

(Dollars in millions)	2004	2003
Leveraged leases	$1,585	$1,535
Finance receivables[1]	633	450
Other assets[1]	—	51
Rental equipment[1]	54	18
Total	$2,272	$2,054

[1] On March 31, 2004 the company adopted the provisions of FIN No. 46 and consolidated the assets and liabilities of PBG. Accordingly, the increase in finance receivables and rental equipment at December 31, 2004 reflects the consolidated assets of PBG. Other assets at December 31, 2003 represented our investment in PBG, which at that time was accounted for under the equity method of accounting. See Note 1 to the consolidated financial statements for further details on the impact of adopting FIN No. 46.

The company's investment in leveraged leases assets consists of the following:

(Dollars in millions)	2004	2003
Rental receivables	$ 7,820	$ 8,043
Residual value	534	550
Principal and interest on nonrecourse loans	(6,019)	(6,263)
Unearned income	(750)	(795)
Total leveraged leases	1,585	1,535
Less: deferred taxes related to leveraged leases	(1,325)	(1,229)
Net investment in leveraged leases	$ 260	$ 306

- Rental receivables represent total lease payments from the company's customers over the remaining term of the leveraged leases.
- Residual value represents the value of the property anticipated at the end of the leveraged lease terms and is based on appraisals or other sources of estimated value. The company regularly reviews the recorded residual value for impairments deemed to be other than temporary and records adjustments as appropriate.
- Principal and interest on nonrecourse loans represent amounts due to unrelated third parties from the company's customers over the remaining term of the leveraged leases. The nonrecourse loans are secured by the lessees' rental obligations and the leased property. If a lessee defaults and if the amounts realized from the sale of these assets are insufficient, the company has no obligation to make any payments due on these nonrecourse loans to the unrelated third parties. Accordingly, the company is required by GAAP to subtract the principal and interest over the remaining term of the nonrecourse loans from its rental receivables and residual value. At December 31, 2004 and 2003, the principal balances on the nonrecourse loans totaled $3.4 billion and $3.5 billion, respectively, and the related interest payments over the remaining terms of the leases totaled $2.6 billion and $2.8 billion, respectively. Maturities of the principal balances on the nonrecourse loans are $302 million, $218 million, $122 million, $143 million, $246 million and $2.4 billion for the years ended December 31, 2005, 2006, 2007, 2008, 2009 and thereafter, respectively.
- Unearned income represents the company's future financing income that will be earned over the remaining term of the leases.
- Total leveraged leases represent the amount that is recorded in the company's Consolidated Balance Sheets.

The investment in total leveraged leases in the company's Consolidated Balance Sheets is diversified across the following types of assets:

(Dollars in millions)	2004	2003	Original Lease Term (In Years)
Locomotives and rail cars	$ 382	$ 360	20–40
Postal equipment	356	338	16–24
Commercial aircraft	275	279	23–25
Commercial real estate	242	236	17–25
Telecommunications	141	139	14–16
Rail and bus	133	132	27–37
Shipping and handling	56	51	24
Total leveraged leases	$1,585	$1,535	

At December 31, 2004 and 2003, the company's leveraged lease investment in commercial real estate facilities included approximately $92 million and $88 million, respectively, related to leases of corporate facilities to four U.S. telecommunication entities, of which $76 million and $73 million, respectively, is with lessees that are highly rated. Additionally, the company's leveraged lease investment in telecommunications equipment represents leases to three highly rated international telecommunication entities. At December 31, 2004 substantially all of this portfolio is further secured by equity defeasance accounts or other third party credit arrangements.

At December 31, 2004 approximately 53% of the company's total leveraged lease portfolio is further secured by equity defeasance accounts or other third party credit arrangements. In addition, at December 31, 2004 approximately 18% of the remaining leveraged lease portfolio represents leases to highly rated government related organizations that have guarantees or supplemental credit enhancements upon the occurrence of certain events.

Capital Services finance receivables are composed of the following:

(Dollars in millions)	2004	2003
Large ticket single investor leases[1]	$350	$178
Imagistics lease portfolio	283	272
Total finance receivables	$633	$450

[1] The increase in large ticket single investor leases at December 31, 2004 reflects the change in Capital Services strategy and the consolidated assets of PBG. See Note 1 to the consolidated financial statements for further details on the impact of adopting FIN No. 46.

Investment in Commercial Passenger and Cargo Aircraft Leasing Transactions

At December 31, 2004 and 2003, the company's net investment in commercial passenger and cargo aircraft leasing transactions, net of related debt and minority interest, was $276 million and $298 million, respectively, which is composed of transactions with U.S. airlines of $24 million and $41 million, respectively, and foreign airlines of $252 million and $257 million, respectively. The company's net investment in commercial passenger and cargo aircraft leasing portfolio is composed of investments in leveraged lease transactions, direct financing lease transactions and a portion of the company's investment in PBG. Risk of loss under these transactions is primarily related to: (1) the inability of the airline to make underlying lease payments; (2) the company's inability to generate sufficient cash flows either through the sale of the aircraft or secondary lease transactions to recover its net investment; and/or (3) in the case of the leveraged lease portfolio, the default of an equity defeasance or other third party credit arrangements. At December 31, 2004 approximately 45% of the company's net investment in commercial passenger and cargo aircraft leasing investments was further secured by approximately $123 million of equity defeasance accounts or third party credit arrangements.

Capital Services Charges

In 2002, the company recorded a non-cash pre-tax charge of approximately $213 million to write-down its investments in commercial passenger aircraft leases primarily with US Airways Group, Inc. (US Airways) and United Air Lines (United) and to increase its provision for credit losses primarily related to aircraft leasing investments in the U.S.

The charge was composed of the following:

- A write-down of U.S. aircraft lease receivables and residuals of approximately $110 million;
- Additional credit loss reserves related to U.S. aircraft lease investments of approximately $82 million;
- Other costs related to the company's aircraft leasing investments of approximately $1 million; and
- Additional credit loss reserves related to non-aircraft Capital Services investments of approximately $20 million.

The decision of US Airways and United to file for bankruptcy exacerbated an already difficult environment in the airline industry. As a result of the rapid deterioration of the U.S. airline industry as well as the company's revised Capital Services strategy, the company wrote down lease receivables and residuals of $54 million, $51 million and $5 million associated with United, US Airways and Delta, respectively and recorded a charge of approximately $82 million to increase our provision for credit losses related to its aircraft leasing investments in the U.S. As a result of these events, combined with both the deteriorating financial condition in various other industries and the change in its Capital Services strategy, the company recorded a charge of approximately $20 million to increase its provision for credit losses related to non-aircraft leasing investments, including investments in the telecommunications industry.

Finance Receivables

Finance receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to 25 years.

The components of net finance receivables were as follows:

	2004	2003
Gross finance receivables	$3,850,153	$3,601,827
Residual valuation	395,840	306,097
Initial direct cost deferred	12,158	54,519
Allowance for credit losses	(173,075)	(141,184)
Unearned income	(863,750)	(808,149)
Net finance receivables	$3,221,326	$3,013,110

Maturities of gross finance receivables for the finance operations are as follows:

	Internal Financing	Capital Services	Total
2005	$1,467,615	$203,959	$1,671,574
2006	776,079	130,111	906,190
2007	514,894	140,430	655,324
2008	293,428	45,873	339,301
2009	104,884	22,293	127,177
Thereafter	29,767	120,820	150,587
Total	$3,186,667	$663,486	$3,850,153

Credit Risk

The company regularly reviews its risk of default on both an individual lessee basis as well as its overall exposure by industry. The company also regularly reviews its equipment and property values. This may include industry and equipment studies, physical inspections and appraisals.

A summary of the allowance for credit losses is as follows:

	2004	2003	2002
Beginning balance	$141,184	$154,008	$127,418
Additions charged to continuing operations	86,411	51,910	92,858
Deductions credited to discontinued operations	—	—	(11,761)
Amounts written-off, net of recoveries:			
Internal financing	(45,108)	(48,732)	(48,451)
Capital Services	(9,412)	(16,002)	(6,056)
Total write-offs, net of recoveries	(54,520)	(64,734)	(54,507)
Ending balance	$173,075	$141,184	$154,008

The additions charged to continuing operations in 2004 included $30 million from the consolidation of PBG. Additions charged to continuing operations in 2002 included $43 million related to Capital Services charges.

The carrying values of non-performing assets are disclosed in the table below. As a result of the continuing deterioration in the U.S. airline industry, the company decided to suspend the recognition of financing income on all aircraft leases in the U.S. (other than Federal Express) beginning January 1,

2003. These assets are not included in the summary of non-performing assets below.

	2004	2003	2002
Non-performing assets			
Internal financing	$25,440	$27,086	$29,233
Capital Services	34,635	34,328	46,534
Total	$60,075	$61,414	$75,767

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 FAS 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. 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 FAS 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 $99 million and $126 million at December 31, 2004 and 2003, 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, 2004 and 2003, 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.

OTHER NONCURRENT LIABILITIES

2.243 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.

2.244

TABLE 2-31: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Deferred income taxes	409	376	370	392
Minority interest	159	146	160	159
Derivatives	76	95	93	39
Preferred stock	20	38	41	53
Liabilities of nonhomogeneous operations	4	4	6	10
Employee Liabilities				
Pension accruals	231	233	220	141
Benefits	209	209	221	191
Deferred compensation, bonus, etc.	68	64	55	52
Other—described	17	15	17	9
Estimated Losses or Expenses				
Discontinued operations	77	54	54	21
Environmental	62	63	67	54
Insurance	44	24	38	33
Warranties	29	22	22	10
Litigation	28	19	17	13
Asset retirement obligation	23	19	4	3
Other—described	74	40	91	93
Deferred Credits				
Payments received prior to rendering service	52	58	34	33
Deferred profit on sales	28	26	34	33
Other—described	11	12	10	11

Deferred Income Taxes

2.245

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

(In millions)	2004	2003
Total current liabilities	$1,969.0	$1,857.2
Postretirement benefits	454.2	470.4
Debt	8,278.6	7,285.4
Deferred income taxes	1,727.2	1,462.1
Other long-term liabilities	1,076.3	902.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The provision for income taxes is based on the income and expense amounts reported in the consolidated statement of income. The company utilizes federal, state and foreign income tax laws and regulations to reduce current cash taxes payable. Deferred income taxes are recognized for the effect of temporary differences between financial reporting and tax filing in accordance with the requirements of FAS No. 109, "Accounting for Income Taxes." See Note 11 for additional information on the company's provision for income taxes, deferred income tax assets and liabilities, and effective tax rate.

11 (In Part): Income Taxes

The deferred income tax provision results from temporary differences between financial reporting and income tax filing for the basis of assets and liabilities, and in the timing of recognition of certain income and expense items. The primary temporary differences related to depreciation on fixed assets, accelerated pension contributions, and accrued U.S. taxes on equity income, net of applicable foreign tax credits.

The company's deferred income tax liabilities and deferred income tax assets as of December 31, 2004 and 2003, are summarized by category below (in millions). Deferred income tax liabilities result primarily from income tax deductions being received prior to expense recognition for financial reporting purposes. Deferred income tax assets relate primarily to expenses being recognized for financial reporting purposes that are not yet deductible for income tax purposes, and to the recognition of minimum pension liabilities. Valuation allowances of $32.2 million and $19.9 million have been provided for deferred income tax assets for which realization is uncertain as of December 31, 2004 and 2003, respectively. Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries that are considered to be permanently reinvested outside the United States. Cumulative foreign earnings considered permanently reinvested totaled $187.9 million and $169.1 million, respectively, at December 31, 2004 and 2003.

	2004	2003
Deferred income tax liabilities:		
Fixed assets	$1,902.6	$1,795.6
Accelerated pension contributions	221.3	168.5
Accrued net U.S. taxes on equity earnings	162.3	124.1
Other	211.7	140.0
Total deferred income tax liabilities	2,497.9	2,228.2
Deferred income tax assets:		
Minimum pension obligation	324.4	264.4
Postretirement benefits	199.7	205.6
Spare parts and production supplies	74.8	72.5
Compensation-related obligations	74.9	67.1
Accrued liabilities and other	152.6	156.5
Total deferred income tax assets(1)	826.4	766.1
Net deferred income taxes	$1,671.5	$1,462.1

(1) Deferred income tax assets of $55.7 million are classified as current at December 31, 2004, in the balance sheet line item other current assets.

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In October 2004, the American Jobs Creation Act was signed into law. The Act will provide annual income tax deductions on income related to domestic manufacturing activities, with deduction levels phased in through 2010 and remaining constant thereafter. The company anticipates an income tax benefit under this provision of the Act in the range of $20 million to $25 million in 2005. The Act also creates a temporary opportunity to repatriate income reinvested in overseas operations at substantially reduced income tax rates. Uncertainty remains regarding implementation of this provision and the company has not yet completed its evaluation. The company's evaluation is expected to be complete in mid-2005. The reduced income tax rates for repatriated earnings may also apply to certain dividends received from Modelo.

During 2004, Anheuser-Busch identified a $25.9 million balance sheet reclassification related to the spin-off of its Campbell Taggart bakery subsidiary in 1996. At June 30, 2004, the company increased its deferred income tax liability by $25.9 million and decreased retained earnings by the same amount. The reclassification had no impact on the company's results of operations, total assets, or cash flows.

2.246

CRANE CO. (DEC)

(In thousands)	2004	2003
Total current liabilities	$410,014	$418,574
Long-term debt	296,592	295,861
Accrued pension and postretirement benefits	40,518	39,742
Deferred tax liability	71,367	57,738
Other liabilities	634,323	213,610

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Income Taxes

The provision for income taxes is based on reported earnings before income taxes. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which provides that deferred income taxes are determined by the asset and liability method. Deferred income taxes are provided for temporary differences between financial and tax reporting. Significant factors considered by the Company in estimating the probability of the realization of deferred taxes include expectations of future earnings and taxable income, as well as application of tax laws in the jurisdictions in which the Company operates. A valuation allowance is provided when the Company determines that it is more likely than not that a portion of a deferred tax asset will not be realized.

Income Taxes (In Part)

The Company has not recorded deferred income taxes on the undistributed earnings of foreign subsidiaries because of management's intent to reinvest such earnings indefinitely. At December 31, 2004, the undistributed earnings of the foreign subsidiaries amounted to approximately $110 million.

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.

Tax benefits of $3.3 million in 2004, $1.7 million in 2003 and $2.7 million in 2002 associated with the exercise of employee stock options and other employee stock programs were allocated to shareholders' equity.

The components of deferred tax assets and liabilities included on the balance sheet are as follows:

(In thousands)	2004	2003
Deferred tax assets:		
Asbestos-related liability	$157,016	$ 45,172
Tax loss and credit carryforwards	28,752	36,950
Environmental	16,221	3,981
Inventories	11,072	15,972
Postretirement benefits	9,514	9,761
Deferred compensation	8,903	2,991
Insurance	6,283	6,217
Warranty	6,274	5,802
Compensated absences	5,955	5,984
Other	1,369	10,526
Total	251,359	143,356
Less valuation allowance on state deferred tax assets, tax loss and credit carryforwards	45,478	26,986
Total deferred tax assets, net	205,881	116,370
Deferred tax liabilities:		
Depreciation	(37,777)	(34,767)
Intangibles	(18,690)	(15,339)
Pension	(10,760)	(12,407)
Defined contribution plan	(1,116)	(2,232)
Total deferred liabilities	(68,343)	(64,745)
Net deferred asset	$137,538	$ 51,625
Balance sheet classification:		
Deferred tax asset	46,983	23,313
Other assets	166,847	104,237
Accrued liabilities	(4,925)	(18,187)
Deferred tax liability	(71,367)	(57,738)
Net deferred tax asset	$137,538	$ 51,625

Minority Interest

2.247

INTERNATIONAL PAPER COMPANY (DEC)

(In millions)	2004	2003
Total current liabilities	$4,872	$7,270
Long-term debt	14,132	13,450
Deferred income taxes	1,697	1,387
Other liabilities	3,714	3,559
Minority interest	1,548	1,622

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidation

The consolidated financial statements include the accounts of International Paper and its wholly-owned, controlled majority-owned and financially controlled subsidiaries. Minority interest principally represents minority shareholders' proportionate share of the equity in our consolidated subsidiary, Carter Holt Harvey Limited (CHH). All significant intercompany balances and transactions are eliminated.

Note 11 (In Part): Supplementary Financial Statement Information

The following table presents changes in minority interest balances for the years ended December 31, 2004 and 2003:

(In millions)	2004	2003
Balance, beginning of year	$1,622	$1,202
Sale of preferred securities of a subsidiary	—	150
Minority interest related to sale of CHH Tissue business	307	—
Currency translation adjustment	125	250
Reclassification of limited partnership interests to debt	(338)	—
CHH share repurchase[a]	(158)	—
Dividends paid	(59)	(114)
Minority interest expense	43	109
Other, net	6	25
Balance, end of year	$1,548	$1,622

[a] In August 2004, Carter Holt Harvey used a portion of the funds generated in connection with the second quarter sale of its Tissue business to repurchase shares from its shareholders, including approximately $158 million that was paid to minority shareholders.

2.248

PHELPS DODGE CORPORATION (DEC)

(In millions)	2004	2003
Current liabilities	$1,168.0	$1,015.3
Long-term debt	972.2	1,703.9
Deferred income taxes	448.4	410.2
Other liabilities and deferred credits	1,107.3	1,009.5
	3,695.9	4,138.9
Minority interests in consolidated subsidiaries	555.1	70.2

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

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation (In Part)

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).

In 2003, the Company implemented 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), which provided guidance associated with variable interest entities (VIEs). With respect to entities created prior to February 1, 2003, we determined that our El Abra and Candelaria copper mining operations in Chile met the VIE criteria and that we are the primary beneficiary of these entities. Historically, the Company had accounted for its partnership interests in the 51 percent-owned El Abra and the 80 percent-owned Candelaria copper mines using the proportional consolidation method. In accordance with FIN 46-R, beginning January 1, 2004, we fully consolidated the results of operations for El Abra and Candelaria with the interests held by our minority shareholders reported as minority interests in consolidated subsidiaries in our Consolidated Balance Sheet and Statement of Consolidated Operations. (For further discussion, refer to this note under New Accounting Pronouncements—FASB Interpretation No. 46.)

New Accounting Pronouncements (In Part)

In January 2003, FASB issued FIN 46 and in December 2003, FASB issued a revised interpretation of FIN 46 (FIN 46-R), which supersedes FIN 46 and clarifies and expands current accounting guidance for VIEs. FIN 46 clarifies when a company should consolidate in its financial statements the assets, liabilities and activities of a VIE. FIN 46 provides general guidance as to the definition of a variable interest entity and requires it to be consolidated if a party with an ownership, contractual or other financial interest, absorbs the majority of the VIE's expected losses, or is entitled to receive a majority of the residual returns, or both. A variable interest holder that consolidates the VIE is the primary beneficiary and is required to consolidate the VIE's assets, liabilities and noncontrolling interests at fair value at the date the interest holder first becomes the primary beneficiary of the VIE. FIN 46 and FIN 46-R were effective immediately for all VIEs created after January 31, 2003, and for VIEs created prior to February 1, 2003, no later than the end of the first reporting period after March 15, 2004. We performed a review of entities created subsequent to January 31, 2003, and determined the adoption of FIN 46 and FIN 46-R did not have a material impact on the Company's financial reporting and disclosures. The impact of fully consolidating El Abra and Candelaria on our Consolidated Balance Sheet at December 31, 2004, was an increase in total assets of $604.6 million, total liabilities of $136.7 million and minority interests in consolidated subsidiaries of $467.9 million. There was no impact on consolidated shareholders' equity at December 31, 2004. The impact for the year ended December 31, 2004, on our Statement of Consolidated Operations comprised increases (decreases) in sales and other operating revenues of $273.2 million, operating expenses of $80.9 million, operating income of $192.3 million, net interest expense of $7.0 million, pre-tax early debt extinguishment costs of $4.4 million, net miscellaneous income and expense of $(1.9) million, provision for taxes on income of $(1.9) million and minority interests in consolidated subsidiaries of $180.9 million. There was no impact on consolidated net income for the year ended December 31, 2004.

Derivatives

2.249

CABOT CORPORATION (SEP)

(Dollars in millions)	2004	2003
Total current liabilities	$372	$376
Long-term debt	506	516
Deferred income taxes	22	15
Other liabilities	290	299
Minority interest	45	40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Financial Instruments

Derivative financial instruments are used to manage certain of Cabot's foreign currency and interest rate exposures. Cabot does not enter into financial instruments for speculative purposes. Derivative financial instruments are accounted for in accordance with FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related interpretations, and are measured at fair value and recorded on the balance sheet. Cabot formally documents the relationships between hedging instruments and hedged items, as well as its risk management objective. Hedge accounting is followed for derivatives that have been designated and qualify as fair value, cash flow or net investment hedges. For fair value hedges, changes in the fair value of highly effective derivatives, along with changes in the fair value of the hedged liabilities that are attributable to the hedged risks, are recorded in current period earnings. For cash flow hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported in other comprehensive income (loss), and the ineffective portion is reported in earnings. For net investment hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported as foreign currency translation gains or losses in other comprehensive income (loss), and the ineffective portion is reported in earnings. The gain or loss from changes in the fair value of a derivative instrument that is not designated as a hedge is recognized in earnings.

Note I (In Part): Accounts Payable, Accrued Liabilities & Other Liabilities

Other liabilities consisted of the following:

(Dollars in millions)	2004	2003
Employee benefit plan liabilities	$120	$131
Non-current tax liabilities	72	79
Financial instrument liabilities	26	11
Other accrued liabilities	72	78
Total	$290	$299

Note K. Financial Instruments

Derivative financial instruments are used to manage certain of Cabot's foreign currency and interest rate exposures. Cabot does not enter into financial instruments for speculative purposes. The following discussion of Cabot's financial instruments relate to various debt instruments as described in Note J.

Medium Term Notes

At September 30, 2003, Cabot had outstanding four fixed-to-variable interest rate swaps in an aggregate notional amount of $97 million. During fiscal 2004, two of the four swaps matured. The remaining two swaps have an aggregate notional amount of $60 million. These swaps hedge the change in the fair value of $60 million of Cabot's fixed rate medium term notes due to changes in interest rates. As such, the swaps have been designated as fair value hedges. The interest rate swaps and the related medium term notes mature on various dates through February 2007. The fair values of the derivative instruments were $2 million and $4 million at September 30, 2004 and 2003, respectively, and have been recorded as other assets in the consolidated balance sheet with a corresponding increase to long-term debt. The interest rate swaps were determined to be highly effective and no amount of ineffectiveness was recorded in earnings during the period ended September 30, 2004 and 2003.

Bond

As part of the $175 million bond issuance in September 2003, a Cabot subsidiary entered into a ten-year contract with a notional amount of $140 million to swap U.S. dollars to Euros. This swap hedges the variability of the cash flows on $140 million or 80% of the debt issuance, due to changes in the exchange rates over the life of the debt instrument and thus has been designated as a foreign currency cash flow hedge. This swap had negative fair values of $18 million and $6 million on September 30, 2004 and 2003, respectively and is included in other liabilities. There was no charge to earnings for the period ended September 30, 2004 and 2003 and Cabot does not expect to reclass any gains or losses from accumulated other comprehensive income to earnings within the next twelve months.

The Cabot subsidiary also entered into two swaps in September 2003 on the remaining issuance of $35 million or 20% of the bond issuance. The first was a swap on the fixed rate coupon of 5.25% to the six-month U.S. LIBOR plus a spread of 62 basis points. The variable interest rate on the swap resets with the terms of the bond coupon payments. This swap has been designated as a fair value hedge and had a nominal fair value on September 30, 2004 and 2003. The second swap on the $35 million bond issuance was U.S. dollars at variable interest rates to Euros at variable interest rates. This swap also has been designated as a fair value hedge and had a negative fair values of $3 million and $1 million on September 30, 2004, and 2003, respectively, which is included in other liabilities. The interest rate swaps were determined to be highly effective and a nominal amount of ineffectiveness was recorded in earnings during the period ended September 30, 2004 and 2003.

Yen Debt

Cabot uses both yen based debt and cross currency swaps to hedge its net investment in Japanese subsidiaries against adverse movements in exchange rates. At September 30, 2004, Cabot had two, three-year cross currency swaps maturing in October 2005, which in total swapped $41 million at the three-month U.S. LIBOR interest rates for 5 billion Japanese yen at the three-month yen LIBOR interest rates. Cabot receives semi-annual interest payments on the $41 million at the three-month U.S. dollar LIBOR interest rates and makes semi-annual interest payments on 5 billion yen at three-month Japanese yen LIBOR interest rates. The cross currency swaps had negative fair values of $5 million and $4 million at September 30, 2004 and 2003, respectively, and is included in other liabilities. The change in the fair value of the cross currency swap of negative $1 million for the twelve months ended September 30, 2004 has been recorded as a foreign currency translation loss in accumulated other comprehensive income, offsetting foreign currency translation gains of Cabot's yen denominated net investments. The effectiveness of these hedges is based on changes in the spot foreign exchange rates and the balance of Cabot's yen denominated net investments. As of September 30, 2004, the cross currency swaps reduced Cabot's interest rate by 1.75% on the notional amount of $41 million. The amount of net losses recorded in earnings for the period related to the ineffectiveness of the hedges was nominal.

The 9.3 billion yen debt ($84 million) has been designated as a net investment hedge. At September 30, 2004 and 2003, $9 million was included as a charge to cumulative translation adjustment with a corresponding amount in other liabilities related to the revaluation of the debt from yen to USD.

In addition to the cross currency swaps discussed above, Cabot has two outstanding interest rate swaps with an aggregate notional amount of 9.3 billion yen ($84 million). The swaps are variable-for-fixed rate swaps of the quarterly interest payments on the related debt and mature in fiscal 2008. These swaps hedge the variability of the cash flows caused by changes in interest rates over the life of the debt instrument and thus have been designated as cash flow hedges. Changes in the value of the effective portion of cash flow hedges are reported in other comprehensive income, while the ineffective portion is reported in earnings. The swaps had a positive fair value of zero and $1 million on September 30, 2004 and 2003, respectively and are included in other assets. There was no charge to earnings for the period ended September 30, 2004 and 2003. Within the next twelve months, Cabot does not expect to reclass any gains or losses from accumulated other comprehensive income to earnings.

Note L. Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at September 30, 2004 and 2003 are as follows:

	2004		2003	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$159	$159	$247	$247
Foreign exchange contracts	—	—	2	2
Fair value hedge interest rate swaps	2	2	4	4
Cash flow hedge interest rate swaps	—	—	1	1
Liabilities:				
Notes payable to banks—short-term	$ 24	$ 24	$ 15	$ 15
Long-term debt—fixed rate	428	464	470	512
Long-term debt—floating rate	84	84	84	84
Cross currency net investment hedges	5	5	4	4
Foreign currency fair value hedge	3	3	1	1
Foreign currency cash flow hedge	18	18	6	6

At September 30, 2004 and 2003, the fair values of cash, cash equivalents, accounts receivables, accounts payable and notes payable to banks approximated carrying values because of the short-term nature of these instruments. The estimated fair values of the derivative instruments as described in Note K are estimated based on the amount that Cabot would receive or pay to terminate the agreements at the respective year-ends. The derivative instruments are carried at fair value. The fair value of Cabot's fixed rate long-term debt is estimated based on quoted market prices at the end of each fiscal year. The carrying amounts of Cabot's floating rate long-term debt approximate their fair value. Considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Cabot could realize in a current market exchange.

Preferred Stock

2.250

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	2004	2003
Total current liabilities	$ 6,223	$ 6,361
Long-term debt	5,116	5,410
Mandatorily redeemable preferred stock	350	350
Accrued retiree benefits	3,736	3,811
Deferred income taxes	506	508
Other long-term liabilities	730	797
Total liabilities	$16,661	$17,237

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Fair Value of Financial Instruments

Carrying amounts and the related estimated fair values of the company's financial instruments are as follows:

	2004		2003	
($ in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,230	$ 1,230	$ 294	$ 294
Investments in marketable securities	55	55	50	50
Investment in Auto	213	352	170	170
Note receivable			499	482
Short-term notes payable	(9)	(9)	(19)	(19)
Long-term debt	(5,149)	(5,833)	(5,872)	(6,509)
Mandatorily redeemable preferred stock	(350)	(469)	(350)	(436)
Interest rate swaps	7	7		
Forward share sale agreements				
Liability portion			(13)	(13)
Hedge portion			13	13
Foreign currency forward contracts	(4)	(4)	2	2

Mandatorily Redeemable Preferred Stock

The fair value of the mandatorily redeemable preferred stock was calculated based on the closing market price quoted on the New York Stock Exchange (trading symbol NOC-pb) at December 31, 2004, and 2003, respectively.

14. Mandatorily Redeemable Series B Convertible Preferred Stock

The company issued 3.5 million shares of mandatorily redeemable Series B Convertible Preferred Stock in April 2001. Each share of Series B preferred stock has a liquidation value of $100 per share. The liquidation value, plus accrued but unpaid dividends, is payable on April 4, 2021, the mandatory redemption date. The company has the option to redeem all but not less than all of the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company's common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Under this option, were the redemption to have taken place at December 31, 2004, each share would have been converted into 1.819 shares of common stock. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company's common stock. Initially, each share was convertible into .911 shares of common stock, subject to adjustment in the event of certain dividends and distributions, a stock split, a merger, consolidation or sale of substantially all of the company's assets, a liquidation or distribution, and certain other events. Were the conversion to have taken place at December 31, 2004, each share would have been converted into 1.822 shares of common stock, reflecting adjustment for the stock split discussed in Note 3. Holders of preferred stock are entitled to cumulative annual cash dividends of $7 per share, payable quarterly. In any liquidation of the company, each share of preferred stock is entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a change in control of the company, holders of Series B preferred stock also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction.

Effective July 1, 2003, the company adopted SFAS No. 150—*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Following adoption of the standard, mandatorily redeemable preferred stock is reported as a long-term liability in the Consolidated Statements of Financial Position. As of December 31, 2004, 10 million preferred stock shares are authorized and 3.5 million shares are issued and outstanding.

2.251

XEROX CORPORATION (DEC)

(In millions)	2004	2003
Total current liabilities	$ 6,300	$ 7,669
Long-term debt	7,050	6,930
Liabilities to subsidiary trusts issuing preferred securities	717	1,809
Pension and other benefit liabilities	1,189	1,058
Post-retirement medical benefits	1,180	1,168
Other long-term liabilities	1,315	1,278
Total liabilities	$17,751	$19,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 10: Liability to Subsidiary Trusts Issuing Preferred Securities

The Liability to Subsidiary Trusts Issuing Preferred Securities included in our Consolidated Balance Sheets reflects the obligations to our subsidiaries that have issued preferred securities. These subsidiaries are not consolidated in our financial statements because we are not the primary beneficiary of the trusts. As of December 31, 2004 and 2003, the components of our liabilities to the trusts were as follows:

	2004	2003
Trust II	$ —	$1,067
Trust I	629	665
Xerox Capital LLC	88	77
Total	$717	$1,809

Trust II

In 2001, Xerox Capital Trust II ("Trust II") issued 20.7 million of 7.5 percent convertible trust preferred securities (the "Trust Preferred Securities") to investors for $1,035 and 0.6 million shares of common securities to us for $32. With the proceeds from these securities, Trust II purchased $1,067 of 7.5 percent convertible junior subordinated debentures due 2021 of one of our wholly-owned consolidated subsidiaries. The subsidiary purchased $1,067 aggregate principal amount of 7.5 percent convertible junior subordinated debentrues due 2021 of the Company. Trust II's assets consisted principally of our subsidiary's debentures and our subsidiary's assets consisted principally of our debentures. On a consolidated basis, we received net proceeds of $1,004. Fees of $31 were capitalized as debt issuance costs and were amortized to interest expense over three years to the earliest put date. Interest expense was $83 and $89 in 2004 and 2003, respectively.

The Trust Preferred Securities accrued and paid cash distributions quarterly at a rate of 7.5 percent per year of the stated amount of fifty dollars per security. The Trust Preferred Securities were convertible at any time, at the option of the investors, into 5.4795 shares of our common stock per Trust Preferred Security (equivalent share price of $9.125 per common share) ("the Conversion Ratio"). The Trust Preferred Securities were mandatorily redeemable upon the maturity of the debentures on November 27, 2021 at fifty dollars per Trust Preferred Security plus accrued and unpaid distributions.

In December 2004, Trust II redeemed 20.7 million of the issued and outstanding Trust Preferred Securities. In lieu of cash redemption, holders of substantially all of the securities converted $1,035 aggregate principal amount of securities into 113,414,658 shares of Xerox common stock. As a result of the conversion and redemption, there is no remaining outstanding principal. The issuance of Xerox shares upon conversion had no impact on diluted earnings per share as they were previously included in the company's diluted EPS calculation in accordance with the "if converted" accounting methodology.

Trust I

In 1997, Xerox Capital Trust I ("Trust I") issued 650 thousand of 8.0 percent preferred securities (the "Preferred Securities") to investors for $644 ($650 liquidation value) and 20,103 shares of common securities to us for $20. With the proceeds from these securities, Trust I purchased $670 principal amount of 8.0 percent Junior Subordinated Debentures due 2027 of the Company ("the Debentures"). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of $637 which was net of fees and discounts of $13. Interest expense, together with the amortization of debt issuance costs and discounts, amounted to $54 and $52 in 2004 and 2003, respectively. In the first quarter of 2004, we entered into pay variable receive fixed interest rate swaps with a notional amount of $600 associated with the 2027 liability to Trust I. These swaps were designated and accounted for as fair value hedges and resulted in a fair value adjustment to reduce the Trust I liability by $36 as of December 31, 2004. As of December 31, 2004, the interest rates on these swaps ranged from approximately 5.28% to 5.68% and are based on the 6 month LIBOR rate plus an applicable margin. We have guaranteed (the "Guarantee"), on a subordinated basis, distributions and other payments due on the Preferred Securities. The Guarantee and our obligations under the Debentures and in the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8 percent per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

Xerox Capital LLC

In 1996, Xerox Capital LLC, issued 2 million deferred preferred shares for Canadian (Cdn.) $50 ($42 U.S.) to investors and all of its common shares to us. The total proceeds of Cdn. $63 ($52 U.S.) were loaned to us. The deferred preferred shares are mandatorily redeemable on February 28, 2006 for Cdn. $90 (equivalent to $75 U.S. at December 31, 2004). Our liability to the subsidiary trust of $88 includes the current amount of the deferred preferred shares of $69.

Note 11 (In Part): Financial Instruments

Interest Rate Risk Management (In Part)

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged. Virtually all customer-financing assets earn fixed rates of interest and a significant portion of those assets have been matched to secured borrowings through third party funding arrangements which generally bear fixed rates of interest. These borrowings are secured by customer-financing assets and are designed to mature as we collect principal payments on the financing assets which secure them. The interest rates on a significant portion of those loans are fixed. As a result, these funding arrangements create natural match funding of the financing assets to the related debt.

At December 31, 2004 and 2003, we had outstanding single currency interest rate swap agreements with aggregate notional amounts of $2.8 billion and $2.5 billion, respectively. The net (liability) asset fair values at December 31, 2004 and 2003 were $(37) and $46, respectively.

Fair Value Hedges

As of December 31, 2004 and 2003, pay variable/receive fixed interest rate swaps with notional amounts of $2.4 billion and $1.7 billion were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2004 or 2003. The following is a summary of our fair value hedges at December 31, 2004:

Debt Instrument	Year First Designated	Notional Amount	Weighted-Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior notes due 2010	2003	$ 700	6.04%	7.13%	LIBOR	2010
Senior notes due 2013	2003/2004	550	6.01%	7.63%	LIBOR	2013
Notes due 2016	2004	250	5.44%	7.20%	LIBOR	2016
Senior notes due 2011	2004	250	5.41%	6.88%	LIBOR	2011
Liability to Capital Trust I	2004	600	5.52%	8.00%	LIBOR	2027
Total		$2,350				

Fair Value of Financial Instruments

The estimated fair values of our financial instruments at December 31, 2004 and 2003 follow:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$3,218	$3,218	$2,477	$2,477
Accounts receivable, net	2,076	2,076	2,159	2,159
Short-term debt	3,074	3,093	4,236	4,281
Long-term debt	7,050	7,442	6,930	7,177
Liabilities to trusts issuing preferred securities	717	738	1,809	2,407

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt, as well as Liabilities to subsidiary trusts issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Employee-Related Liabilities

2.252

THE EASTERN COMPANY (DEC)

	2004	2003
Total current liabilities	$13,732,694	$10,071,232
Deferred income taxes	1,452,134	1,243,264
Long-term debt, less current portion	11,804,861	15,814,669
Accrued post-retirement benefits	2,219,821	2,384,770
Accrued pension cost	4,885,160	4,015,858
Interest rate swap obligation	160,417	580,055

NOTES TO FINANCIAL STATEMENTS

10 (In Part): Retirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering most U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company also sponsors unfunded nonqualified supplemental retirement plans that provide certain current and former officers with benefits in excess of limits imposed by federal tax law. The measurement date for the obligations disclosed below is September 30 of each year.

The Company also provides health care and life insurance for retired salaried employees in the United States who meet specific eligibility requirements.

Significant disclosures relating to these benefit plans follow:

	Pension Benefits		Postretirement Benefits	
	2004	2003	2004	2003
Change in projected benefit obligation				
Benefit obligation at beginning of year	$36,915,855	$33,737,224	$2,129,909	$1,997,724
Change due to availability of final actual assets and census data	(98,325)	132,099	(134,531)	75,758
Plan amendment[(a)]	—	145,612	—	—
Service cost	1,198,318	1,131,435	75,488	70,321
Interest cost	2,299,608	2,274,329	123,456	137,124
Actuarial loss	534,203	1,659,027	59,421	78,130
Benefits paid	(2,264,213)	(2,163,871)	(192,115)	(229,148)
Benefit obligation at end of year	$38,585,446	$36,915,855	$2,061,628	$2,129,909
Change in plan assets				
Fair value of plan assets at beginning of year	$32,071,588	$28,816,677	$ 892,428	$ 796,507
Change due to availability of final actual assets and census data	(56,755)	(1,251)	(33,774)	7,855
Actual return on plan assets	2,365,233	3,900,350	73,515	69,174
Employer contributions	652,052	1,519,683	—	—
Benefits paid	(2,246,538)	(2,163,871)	12,454	18,892
Fair value of plan assets at end of year	$32,785,580	$32,071,588	$ 944,623	$ 892,428

(a) A plan was amended in 2003 to increase benefits for specified retired participants.

	Pension Benefits		Postretirement Benefits	
	2004	2003	2004	2003
Reconciliation of funded status				
Under-funded status	$(5,799,866)	$(4,844,267)	$(1,117,005)	$(1,237,481)
Unrecognized prior service cost	929,535	1,126,515	(320,038)	(80,144)
Unrecognized net actuarial loss (gain)	9,406,330	9,032,632	(782,778)	(1,067,145)
Unrecognized net asset at transition	(226,898)	(424,055)	—	—
Net amount recognized in the balance sheet	$ 4,309,101	$ 4,890,825	$(2,219,821)	$(2,384,770)
Amount recognized on balance sheet				
Prepaid benefit cost	$ 348,634	$ 1,192,281	$ —	$ —
Accrued benefit liability	(4,885,160)	(4,015,858)	(2,219,821)	(2,384,770)
Intangible asset	870,064	964,592	—	—
Accumulated other comprehensive loss	7,975,563	6,749,810	—	—
Net amount recognized in the balance sheet	$ 4,309,101	$ 4,890,825	$(2,219,821)	$(2,384,770)

In 2004 and 2003, the accumulated benefit obligation for all qualified and nonqualified defined benefit pension plans was $37,038,422 and $35,372,932 respectively.

Information for three of the under-funded pension plans with a projected benefit obligation and an accumulated benefit obligation in excess of plan assets follows:

	2004	2003
Projected benefit obligation	$36,507,181	$30,005,029
Accumulated benefit obligation	35,565,225	29,028,413
Fair value of plan assets	31,189,244	25,458,556

Estimated future benefit payments are $2.4 million in 2005, $2.4 million in 2006, $2.4 million in 2007, $2.4 million in 2008, $2.4 million in 2009 and a total of $11.9 million from 2010 through 2014.

The percentage of each asset category of the total assets held by the plans follows:

	Allocation Parameters	2004	2003
Equity securities	30–70%	63%	60%
Fixed income	30–60%	31	32
Cash and cash equivalents	0–10%	6	8
Total		100%	100%

The Company utilizes a diversified, strategic allocation to generate investment returns that will meet the objectives set forth in the Company's investment policy, while keeping periods of negative returns to a minimum. Studies of assets and liabilities that incorporate specific plan objectives, as well as assumptions regarding long-term capital market returns and volatilities, generate the specific asset allocations for the trusts. The long-term nature of the trusts make them well-suited to bear the risk of added volatility associated with equity securities and, accordingly, the asset allocations of the trust reflect a higher allocation to equities as compared to fixed-income securities. Non-U.S. securities are used to diversify some of the volatility of the U.S. equity market while providing comparable long-term returns. The investment guidelines set forth in the Company's investment policy limit or prohibit exposure to investments in more volatile sectors.

In selecting the expected rate of return on plan assets, the Company considers historical returns for the types of investments that its plans hold.

The plans' assets include 410,974 shares and 430,874 of the common stock of the Company having a market value of $8,219,480 and $6,700,091 at January 1, 2005 and January 3, 2004, respectively. The plans sold 19,900 shares of common stock of the Company during 2004. Dividends received during 2004 and 2003 on the common stock of the Company were $189,585 for each year.

	Pension Benefits		
	2004	2003	2002
Assumptions			
Discount rate	6%	6.5%	7%
Expected return on plan assets	8.5%	8.5%	9%
Rate of compensation increase	4.25%	4.25%	4.25%
Components of net periodic benefit cost			
Service cost	$1,198,318	$1,131,435	$1,073,638
Interest cost	2,299,608	2,274,329	2,198,127
Expected return on plan assets	(2,567,814)	(2,755,927)	(1,577,856)
Net amortization and deferral	305,795	770,747	(1,146,850)
Net periodic benefit cost	$1,235,907	$1,420,584	$547,059

	Postretirement Benefits		
	2004	2003	2002
Assumptions			
Discount rate	6%	6.5%	7%
Expected return on plan assets	8.5%	8.5%	9%
Components of net periodic benefit cost			
Service cost	$ 75,488	$ 70,321	$ 73,311
Interest cost	123,456	137,124	132,966
Expected return on plan assets	(73,515)	(69,174)	(66,224)
Net amortization and deferral	(85,809)	(83,617)	(92,752)
Net periodic benefit cost	$ 39,620	$ 54,654	$ 47,301

For measurement purposes relating to the postretirement benefit plan, the life insurance cost trend rate is 1%. The health care cost trend rate for participants retiring after January 1, 1991 is nil; no increase in that rate is expected because of caps placed on benefits. The health care cost trend rate is expected to remain at 4.5% for participants after the year 2000.

A one-percentage-point change in assumed health care cost trend rates would have the following effects on the postretirement benefit plan:

	1-Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 31,476	$ (13,950)
Effect on postretirement benefit obligation	$284,476	$(125,900)

U.S. salaried employees and most employees of the Company's Canadian subsidiary are covered by defined contribution plans.

On December 8, 2003, the "Medicare Prescription Drug Improvement and Modernization Act of 2003" (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare as well as 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.

In the second quarter of 2004, a FASB Staff Position (FSP FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003) was issued providing guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP superceded FSP FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003. The FSP is effective for the first interim or annual period beginning after June 15, 2004. The guidance in this FSP applies only to the sponsor of a single-employer defined benefit postretirement health plan for which the employer has concluded that prescription drug benefits available under the plan are actuarially equivalent and, thus, qualify for the subsidy under the Act and the expected subsidy will offset or reduce the employer's share of the cost of postretirement prescription drug coverage by the plan.

The Company's actuary has estimated the impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003, which resulted in reduction in the December 31, 2004 accumulated postretirement benefit obligation ("APBO") by $52,668. This reduction has been reflected as an actuarial experience gain as of December 31, 2004, and the December 31, 2004 APBO has been reduced accordingly.

2.253

OWENS-ILLINOIS, INC. (DEC)

(Dollars in millions)	2004	2003
Total current liabilities	$1,906.5	$1,363.4
Liabilities of discontinued operations		64.0
Long-term debt	5,167.9	5,333.1
Deferred taxes	183.3	57.4
Nonpension postretirement benefits	285.6	284.8
Other liabilities	883.3	635.4
Asbestos-related liabilities	596.2	628.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular data dollars in millions)

14. Pension Benefit Plans (In Part)

The Company has defined benefit pension plans covering substantially all employees located in the United States, the United Kingdom, the Netherlands, Canada, Australia, Germany and France. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date. The following tables relate to the Company's principal defined benefit pension plans.

The changes in the pension benefit obligations for the year were as follows:

	2004	2003
Obligations at beginning of year	$3,090.0	$2,752.4
Change in benefit obligations:		
Service cost	56.9	48.8
Interest cost	197.0	179.1
Actuarial loss, including effect of changing discount rates	190.4	211.4
Acquisitions	448.8	
Divestitures	(35.2)	
Participant contributions	7.7	5.1
Benefit payments	(281.2)	(219.4)
Plan amendments	(44.6)	0.7
Foreign currency translation	119.3	110.6
Other	5.4	1.3
Net increase in benefit obligations	664.5	337.6
Obligations at end of year	$3,754.5	$3,090.0

The changes in the fair value of the pension plans' assets for the year were as follows:

	2004	2003
Fair value at beginning of year	$2,869.9	$2,483.9
Change in fair value:		
Actual gain on plan assets	482.4	483.2
Acquisitions	285.1	
Benefit payments	(281.2)	(219.4)
Employer contributions	63.8	35.1
Participant contributions	7.7	5.1
Foreign currency translation	82.4	82.0
Net increase in fair value of assets	640.2	386.0
Fair value at end of year	$3,510.1	$2,869.9

The funded status of the pension plans at year end was as follows:

	2004	2003
Plan assets at fair value	$3,510.1	$2,869.9
Projected benefit obligations	3,754.5	3,090.0
Plan assets less than projected benefit obligations	(244.4)	(220.1)
Net unrecognized items:		
Actuarial loss	1,080.0	1,157.7
Prior service cost	(5.5)	45.2
	1,074.5	1,202.9
Net amount recognized	$ 830.1	$ 982.8

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2004 and 2003 as follows:

	2004	2003
Prepaid pension	$962.5	$967.1
Accrued pension, included with other liabilities	(205.5)	(45.4)
Minimum pension liability, included with other liabilities	(134.7)	(107.3)
Intangible asset, included with deposits and other assets	12.2	12.4
Accumulated other comprehensive income	195.6	156.0
Net amount recognized	$830.1	$982.8

The accumulated benefit obligation for all defined benefit pension plans was $3,470.2 million and $2,823.8 million at December 31, 2004 and 2003, respectively.

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The following selected information is for plans with projected benefit obligations in excess of the fair value of plan assets at year end:

	2004	2003
Projected benefit obligations	$1,317.3	$3,090.0
Fair value of plan assets	906.8	2,869.9

The following information is for plans with accumulated benefit obligations in excess of the fair value of plan assets at year end:

	2004	2003
Accumulated benefit obligations	$1,197.9	$632.3
Fair value of plan assets	906.8	479.9

The weighted average assumptions used to determine benefit obligations were as follows:

	2004	2003
Discount rate	5.52%	6.10%
Rate of compensation increase	4.40%	4.71%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2004	2003	2002
Discount rate	6.10%	6.52%	6.95%
Rate of compensation increase	4.71%	4.72%	4.78%
Expected long-term rate of return on assets	8.35%	8.71%	9.64%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above. Amortization included in net pension expense (credits) is based on the average remaining service of employees.

As of December 31, 2004, the Company recorded an additional minimum pension liability for the pension plan in the United Kingdom in addition to the minimum liabilities recorded in 2002 and 2003. Pursuant to this requirement, the

Company increased the minimum pension liability by $25.3 million, reduced the intangible asset by $1.7 million, and increased accumulated other comprehensive income by $27.0 million.

As of December 31, 2004, the Company adjusted the minimum pension liability for the pension plan in Canada from the minimum liabilities recorded in 2002 and 2003. Pursuant to this requirement, the Company increased the intangible asset by $0.4 million and decreased accumulated other comprehensive income by $0.4 million. The minimum pension liability was not materially decreased.

For 2004, the Company's weighted average expected long-term rate of return on assets was 8.35%. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2003), which was in line with the expected long-term rate of return assumption for 2004.

The weighted average actual asset allocations and weighted average target allocation ranges by asset category for the Company's pension plan assets were as follows:

	Actual Allocation		Target Allocation
Asset Category	2004	2003	Ranges
Equity securites	61%	68%	56–66%
Debt securities	29%	24%	26–36%
Real estate	7%	7%	2–12%
Other	3%	1%	0–2%
Total	100%	100%	

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for both the U.S. and non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

Plan assets at December 31, 2004 and 2003 included 487,236 and 14,423, 621 shares, respectively, of the Company's common stock, which amounted to $11.0 million or 0.4% of total plan assets as of December 31, 2004 and $171.5 million or 6.0% of total plan assets as of December 31, 2003.

The Company expects to contribute $37.3 million to its defined benefit pension plans in 2005.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2005	$ 227.1
2006	236.6
2007	234.6
2008	234.6
2009	241.1
2010–2014	1,285.7

15. Postretirement Benefits Other Than Pensions

The Company provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees, substantially all employees in Canada and in the Netherlands. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service.

The changes in the postretirement benefit obligations for the year were as follows:

	2004	2003
Obligations at beginning of year	$380.8	$352.3
Change in benefit obligations:		
Service cost	4.3	3.6
Interest cost	21.0	23.3
Actuarial loss, including the effect of changing discount rates	5.3	25.1
Acquisitions	21.0	
Plan amendments	(63.7)	
Benefit payments	(33.8)	(32.7)
Foreign currency translation	6.0	9.4
Other	—	(0.2)
Net change in benefit obligations	(39.9)	28.5
Obligations at end of year	$340.9	$380.8

The funded status of the postretirement benefit plans at year end was as follows:

	2004	2003
Projected postretirement benefit obligations	$340.9	$380.8
Net unrecognized items:		
Prior service credit	45.2	4.7
Actuarial loss	(100.5)	(100.7)
	(55.3)	(96.0)
Nonpension accumulated postretirement benefit obligations	$285.6	$284.8

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The weighted average discount rate used to determine the accumulated postretirement benefit obligation was 5.67% and 6.21% at December 31, 2004 and 2003, respectively.

The weighted average discount rate used to determine net postretirement benefit cost was 6.21%, 6.72%, and 7.18% at December 31, 2004, 2003, and 2002, respectively.

The weighted average assumed health care cost trend rates at December 31 were as follows:

	2004	2003
Health care cost trend rate assumed for next year	9.19%	10.56%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.66%	5.93%
Year that the rate reaches the ultimate trend rate	2009	2009

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 2.2	$ (1.7)
Effect on accumulated postretirement benefit obligations	22.3	(17.4)

Amortization included in net postretirement benefit cost is based on the average remaining service of employees.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2005	$ 32.3
2006	24.1
2007	23.6
2008	23.1
2009	22.9
2010–2014	117.5

Benefits provided by the Company for certain hourly retirees are determined by collective bargaining. Most other domestic hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were $7.6 million in 2004, $8.7 million in 2003, and $8.9 million in 2002. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

Effective July 1, 2004, the Company amended its U.S. salaried postretirement medical plan to align benefits with those of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The effect of the amendment reduced the 2004 expense by approximately $5.3 million.

Discontinued Operations

2.254

DELUXE CORPORATION (DEC)

(Dollars in thousands)	2004	2003
Total current liabilities	$571,198	$387,839
Long-term debt	953,848	380,620
Deferred income taxes	82,489	42,654
Non-current liabilities of discontinued operations	3,490	—
Other non-current liabilities	66,545	49,930

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Discontinued Operations

During the fourth quarter of 2004, we disposed of substantially all of the operations of NEBS European businesses. This disposal reflects our intention to focus on our North American operations and was completed on December 31, 2004. Net proceeds from the sale were $0.8 million, subject to subsequent adjustment based on an audit of the companies' December 31, 2004 balance sheets. No gain or loss was recognized on this disposition as the assets and liabilities were recorded at fair value on the acquisition date.

Also during the fourth quarter of 2004, we announced the planned sale of NEBS apparel business, Premium Wear. This sale will allow us to focus our resources on the many critical initiatives underway within Small Business Services. We anticipate that this sale will be completed in 2005. The results of operations of these businesses are reflected as discontinued operations in our 2004 consolidated financial statements.

The major classes of assets and liabilities of discontinued operations as of December 31, 2004 were as follows (dollars in thousands):

Cash and cash equivalents	$ 3
Trade accounts receivable	5,640
Inventories and supplies	12,645
Deferred income taxes	2,442
Other current assets	1,911
Current assets of discontinued operations	22,641
Property, plant and equipment	2,514
Deferred income taxes	4,450
Non-current assets of discontinued operations	6,964
Accounts payable	(1,373)
Accrued liabilities	(3,493)
Long-term debt due within one year	(10)
Current liabilities of discontinued operations	(4,876)
Long-term debt	(4)
Other non-current liabilities	(3,486)
Non-current liabilities of discontinued operations	(3,490)
Net assets of discontinued operations	$21,239

Revenue and loss from discontinued operations for 2004 were as follows (dollars in thousands):

Revenue	$28,789
Pre-tax loss	$ (1,098)
Income tax benefit	441
Net loss from discontinued operations	$ (657)

Environmental Costs

2.255

EASTMAN KODAK COMPANY (DEC)

(In millions)	2004	2003
Total current liabilities	$ 4,990	$ 5,255
Long-term debt, net of current portion	1,852	2,302
Pension and other postretirement liabilities	3,338	3,374
Other long-term liabilities	746	662
Liabilities of discontinued operations	—	8
Total liabilities	$10,926	$11,601

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies and Restatement

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not provide future benefits are expensed as incurred. Costs that are capital in nature and that provide future benefits are capitalized. Liabilities are recorded when environmental assessments are made or the requirement for remedial efforts is probable, and the costs can be reasonably estimated. The timing of accruing for these remediation liabilities is generally no later than the completion of feasibility studies.

The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

Note 10 (In Part): Other Long-Term Liabilities

(In millions)	2004	2003
Deferred compensation	$176	$164
Environmental liabilities	153	141
Deferred income taxes	67	89
Minority interest in Kodak companies	25	45
Other	325	223
Total	$746	$662

Note 11 (In Part): Commitments and Contingencies

Environmental

Cash expenditures for pollution prevention and waste treatment for the Company's current facilities were as follows:

(In millions)	2004	2003	2002
Recurring costs for pollution prevention and waste treatment	$75	$74	$67
Capital expenditures for pollution prevention and waste treatment	7	8	12
Site remediation costs	3	2	3
Total	$85	$84	$82

At December 31, 2004 and 2003, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to $153 million and $141 million, respectively. These amounts are reported in other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. The Company is currently in the process of completing, and in some cases has completed, RCRA Facility Investigations (RFI) and Corrective Measures Studies (CMS) for areas at the site. At December 31, 2004, estimated future investigation and remediation costs of $67 million are accrued for this site and are included in the $153 million reported in other long-term liabilities.

The Company announced the closing of three manufacturing facilities outside the United States in 2004. The Company has obligations with estimated future investigation, remediation and monitoring costs of $21 million at two of these facilities. At December 31, 2004, these costs are accrued and included in the $153 million reported in other long-term liabilities.

The Company has obligations relating to other operating sites and former operations with estimated future investigation, remediation and monitoring costs of $35 million. At December 31, 2004, these costs are accrued and included in the $153 million reported in other long-term liabilities.

The Company has retained certain obligations for environmental remediation and Superfund matters related to certain sites associated with the non-imaging health businesses sold in 1994. At December 31, 2004, estimated future remediation costs of $30 million are accrued for these sites and are included in the $153 million reported in other long-term liabilities.

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next thirty years for many of the sites. For these known environmental exposures, the accrual reflects the Company's best estimate of the amount it will incur under the agreed-upon or proposed work plans. The Company's cost estimates were determined using the ASTM Standard E 2137-01, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur or at least once per year. The Company's estimate includes equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately $15 million over the next five years. These expenditures are incurred as part of plant operations and, therefore, are not included in the environmental accrual at December 31, 2004.

The Company is presently designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (the Superfund Law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at five such active sites. With respect to each of these sites, the Company's liability is minimal. In addition, the Company has been identified as a PRP in connection with the non-imaging health businesses in four active

Superfund sites. Numerous other PRPs have also been designated at these sites. Although the law imposes joint and several liability on PRPs, the Company's historical experience demonstrates that these costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are also not expected to be material to the Company's financial position, results of operations or cash flows.

The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. In addition, future expenditures for existing regulations, which are primarily capital in nature, are not expected to be material. Many of the regulations to be promulgated pursuant to this Act have not been issued.

Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of cost does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability, and the Company continually updates its cost estimates. The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

Estimates of the amount and timing of future costs of environmental remediation requirements are necessarily imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on the Company's competitive or financial position. However, such costs could be material to results of operations in a particular future quarter or year.

Insurance

2.256

RYDER SYSTEM, INC. (DEC)

(Dollars in thousands)	2004	2003
Total current liabilities	$1,454,856	$1,101,077
Long-term debt	1,393,666	1,449,489
Other non-current liabilities	408,554	564,948
Deferred income taxes	870,669	827,765
Total liabilities	$4,127,745	$3,943,279

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Self-Insurance Accruals

Ryder retains a portion of the accident risk under vehicle liability, workers' compensation and other insurance programs. Under our insurance programs, we retain the risk of loss in various amounts up to $1 million on a per occurrence basis. We also maintain additional insurance at certain amounts in excess of our respective underlying retention. Accruals are based primarily on the actuarially estimated, undiscounted cost of claims, which includes claims incurred but not reported. Such liabilities are based on estimates. While we believe that the amounts are adequate, there can be no assurance that changes to our estimates may not occur due to limitations inherent in the estimation process. Changes in the estimates of these accruals are charged or credited to earnings in the period determined. Amounts estimated to be paid within the next year have been classified as "Accrued expenses" with the remainder included in "Other non-current liabilities."

10 (In Part): Accrued Expenses and Other Non-Current Liabilities

(In thousands)	2004	2003
Non-current liabilities		
Pension benefits	$114,099	$117,944
Deferred compensation	20,701	21,374
Postretirement benefits other than pensions	27,324	29,221
Self-insurance accruals	167,884	162,441
Reserve for residual value guarantees	2,589	3,582
Vehicle rent and related accruals	4,568	5,283
Environmental liabilities	11,252	6,503
Income taxes	29,090	190,901
Cross-currency swap	15,946	8,614
Other	15,101	19,085
Non-current liabilities	$408,554	$564,948

Warranties

2.257

AMERICAN STANDARD COMPANIES INC. (DEC)

(Amounts in millions)	2004	2003
Total current liabilities	$2,346.7	$2,033.5
Long-term debt	1,429.1	1,626.8
Other long-term liabilities:		
Post-retirement benefits	744.1	657.4
Long-term portion of asbestos indemnity liability	683.4	61.5
Warranties	242.4	202.9
Deferred tax liabilities	94.3	218.5
Other	371.5	364.3
Total liabilities	$5,911.5	$5,164.9

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Warranties

The Company provides for estimated warranty costs at the time of sale of product sold with a limited warranty. The

Company also sells extended warranty contracts on certain products, and the revenues therefrom are deferred and amortized on a straight-line basis over the terms of the contracts or based upon historical experience. Costs to satisfy extended warranty obligations are charged to cost of sales as incurred. See Note 14 for a summary of warranties.

Note 14 (In Part): Warranties, Guarantees, Commitments and Contingencies

Products sold by the Company are covered by a basic limited warranty with terms and conditions that vary depending upon the product and country in which it was sold. The limited warranty covers the equipment, parts and labor (in certain cases) necessary to satisfy the warranty obligation for a period ranging from one to ten years generally, and for the lifetime of certain bath and kitchen faucets. The Company estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time roduct revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. At least once a quarter the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Costs to satisfy warranty claims are charged as incurred to the accrued warranty liability.

The Company also sells a variety of extended warranty contracts for up to ten years on certain air conditioning products. Revenues from the sales of extended warranties are deferred and amortized on a straight-line basis over th terms of the contracts or based upon historical experience. Actual costs to satisfy claims on extended warranty contracts are charged to cost of sales as incurred and were $36 milllion, $35 million and $29 million for 2004, 2003 and 2002, respectively. Total warranty expense was $206 million, $175 million and $124 million for 2004, 2003 and 2002, respectively.

Following is a summary of changes in the Company's product warranty liability for the three years ended December 31, 2004:

(Dollars in millions)	2004	2003	2002
Balance of basic warranty costs accrued and deferred income on extended warranty contracts, beginning of year	$ 356.0	$ 315.9	$ 299.9
Warranty costs accrued	171.9	138.5	117.4
Deferred income on extended warranty contracts sold	68.8	64.4	50.7
Warranty claims settled	(149.2)	(123.6)	(115.1)
Amortization of deferred income on extended warranty contracts	(54.2)	(46.7)	(42.9)
Increases (decreases) in warranty estimates made in prior years, including foreign exchange translation effects	4.2	7.5	5.9
Balance of basic warranty costs accrued and deferred income on extended warranty contracts, end of year	397.5	356.0	315.9
Current portion included in current liabilities	(155.1)	(153.1)	(118.0)
Long-term warranty liability	$ 242.4	$ 202.9	$ 197.9

Litigation

2.258

THE DOW CHEMICAL COMPANY (DEC)

(In millions)	2004	2003
Total current liabilities	$10,506	$9,534
Long-term debt	11,629	11,763
Other noncurrent liabilities		
Deferred income tax liabilities—noncurrent	1,301	1,124
Pension and other postretirement benefits—noncurrent	3,979	3,572
Asbestos-related liabilities—noncurrent	1,549	1,791
Other noncurrent obligations	3,202	3,556
Total other noncurrent liabilities	10,031	10,043
Minority interest in subsidiaries	449	376
Preferred securities of subsidiaries	1,000	1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Legal Costs

The Company expenses legal costs, including those costs expected to be incurred in connection with a loss contingency, as incurred.

Note K (In Part): Commitments and Contingent Liabilities

Litigation (In Part)

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation ("Union Carbide") a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past alleged exposure to asbestos-containing products located on Union Carbide's premises, and Union Carbide's responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. ("Amchem"). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide's products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various form of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. In the second half of 2003 and throughout 2004, the rate of filing significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchen in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Through the third quarter of 2002, Union Carbide had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against Union Carbide and Amchem in the future due to a number of reasons. During the third and fourth quarters of 2002, Union Carbide worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Union Carbide and Amchem. ARPC concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against Union Carbide and Amchem because of various uncertainties associated with the litigation of those claims. Despite its inability to estimate the full range of the cost of resolving future asbestos-related claim, ARPC advised Union Carbide that it would be possible to determine an estimate of a reasonable forcast of the cost of resolving pending and future asbestos-related claims likely to face Union Carbide and Amchem if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

- In the near term, the number of future claims to be filed against Union Carbide and Amchem will be at a level consistent with levels experienced immediately prior to 2001.
- The number of future claims to be filed against Union Carbide and Amchem will decline at a fairly constant rate each year from 2003.
- The average resolution value for pending and future claims will be equivalent to those experienced during 2001 and 2002.

Based on the resulting study completed by ARPC in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Approximately 28 percent of the recorded liability related to pending claims and approximately 72 percent related to future claims.

At each balance sheet date, Union Carbide compares current asbestos claim and resolution activity to the assumptions in the ARPC study to determine whether the accrual continues to be appropriate.

In November 2003, Union Carbide requested ARPC to review Union Carbide's asbestos claim and resolution activity during 2003 and determine the appropriateness of updating the study. In response to that request, ARPC reviewed and analyzed data through November 25, 2003 to determine the number of asbestos-related filings and costs associated with 2003 activity. In January 2004, ARPC stated that an update at that time would not provide a more likely estimate of future events than that reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide's own review of the asbestos claim and resolution activity and ARPC's response, Union Carbide determined that no change to the accrual was required at December 31, 2003.

In November 2004, Union Carbide again requested ARPC to review Union Carbide's historical asbestos claim and resolution activity and determine the appropriateness of updating the January 2003 study. In response to this request, ARPC reviewed and analyzed data through November 14, 2004, and again concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against Union Carbide and Amchem because of various uncertainties associated with the litigation of those claims. ARPC did advise Union Carbide, however, that it was reasonable and feasible to construct a new estimate of the cost to Union Carbide of resolving current and future asbestos-related claims using the same two widely used forecasting methodologies used by ARPC in its January 2003 study, if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

- The number of future claims to be filed annually against Union Carbide and Amchem is unlikely to exceed the level of claims experienced during 2004.
- The number of claims filed against Union Carbide and Amchem annually from 2001 to 2003 is considered anomalous for the purpose of estimating future filings.
- The number of future claims to be filed against Union Carbide and Amchem will decline at a fairly constant rate each year from 2005.
- The average resolution value for pending and future claims will be equivalent to those experienced during 2003 and 2004 (excluding settlements from closed claims filed in Madison County, Illinois with respect to future claims, as those settlements are not considered to be relevant for predicting the cost of resolving future claims).

The resulting study completed by ARPC in January 2005 stated that the undiscounted cost to Union Carbide of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2017 was estimated to be between approximately $1.5 billion and $2.0 billion, depending on which of the two accepted methodologies was used. At December 31, 2004, Union Carbide's recorded asbestos-related liability for pending and future claims was $1.6 billion. Based on the low end of the range in the January 2005 study, Union Carbide's recorded asbestos–related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos–related claims against Union Carbide and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Union Carbide's asbestos-related liability for pending and future claims was $1.6 billion at December 31, 2004 and $1.9 billion at December 31, 2003. At December 31, 2004, approximately 37 percent of the recorded liability related to pending claims and approximately 63 percent related to future claims. At December 31, 2003, approximately 33 percent of the recorded liability related to pending claims and approximately 67 percent related to future claims.

Based on ARPC's January 2003 and January 2005 studies, Union Carbide's recent asbestos litigation experience, and the uncertainties surrounding asbestos litigation and legislative reform efforts, Union Carbide's management determined that no change to the accrual was required at December 31, 2004.

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. Combined with the previously mentioned increase in the absestos-related liability at December 31, 2002, this resulted in a net charge to Union Carbide's income statement of $828 million, $522 million on an after-tax basis, in the fourth quarter of 2002.

The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers.

Union Carbide's receivable for insurance recoveriers related to its asbestos liability was $712 million at December 31, 2004 and $1.0 billion at December 31, 2003. At December 31, 2004, $464 million of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

(In millions)	2004	2003
Receivables for costs submitted to insurance carriers:		
Receivables for defense costs	$ 85	$ 94
Receivables for resolution costs	406	255
Total	$491	$349

Union Carbide's insurance policies generally provide coverage for asbestos liability costs, including coverage for both resolution and defense costs. As previously noted, Union Carbide increased its receivable for insurance recoveries related to its asbestos liability at December 31, 2002, thereby recording the full favorable income statement impact of its insurance coverage in 2002. Accordingly, defense and resolution costs recovered from insurers reduce Union Carbide's insurance receivable. Prior to increasing the insurance receivable related to the asbestos liability at December 31, 2002, the impact on Union Carbide's results of operations for defense costs was the amount of those costs not covered by insurance. Since Union Carbide expenses defense costs as incurred, defense costs for asbestos-related litigation (net of insurance) have impacted, and will continue to impact, results of operations. The pretax impact for defense and resolution costs, net of insurance, was $82 million in 2004, $94 million in 2003 and $9 million in 2002, and was reflected in "Cost of sales."

In September 2003, Union Carbide filed a comprehensive insurance coverage case in the Circuit Court for Kanawha County in Charleston, West Virginia, seeking to confirm its rights to insurance for various asbestos claims (the "West Virginia action"). Although Union Carbide already has settlements in place concerning coverage for asbetos claims with many of its insurers, including those covered by the 1985 Wellington Agreement, this lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage. Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is collectible. Union Carbide reached this conclusion after a further review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies. In early 2004, several of the defendant insurers in the West Virginia action filed a competing action in the Supreme Court of the State of New York, County of New York. As a result of motion practice, the West Virginia action was dismissed in August 2004 on the basis of *forum non conveniens* (i.e., West Virginia is an incovenient location for the parties). The comprehensive insurance coverage litigation is now proceeding in the New York courts.

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, projecting future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide's management cannot estimate the full range of the cost of resolving pending and future abestos-related claims facing Union Carbide and Amchem. Union Carbide's management believes that it is reasonably possible that the cost of disposing of Union Carbide's asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide's results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow's management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company's results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

Asset Retirement Obligation

2.259

AMERADA HESS CORPORATION (DEC)

(Millions of dollars)	2004	2003
Total current liabilities	$4,697	$2,669
Long-term debt	3,785	3,868
Deferred liabilities and credits		
Deferred income taxes	1,184	1,144
Asset retirement obligations	511	462
Other	538	500
Total deferred liabilities and credits	$2,233	$2,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Asset Retirement Obligations

On January 1, 2003, the Corporation changed its method of accounting for asset retirement obligations as required by FAS No. 143, *Accounting for Asset Retirement Obligations*. Previously, the Corporation had accrued the estimated costs of dismantlement, restoration and abandonment, less estimated salvage values, of offshore oil and gas production platforms and pipelines using the units-of-production method. This cost was reported as a component of depreciation expense and accumulated depreciation. Using the new accounting method required by FAS No. 143, the Corporation recognizes a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. The Corporation capitalizes the associated asset retirement costs as part of the carrying amount of the long-lived assets. The cumulative effect of this change on prior years resulted in a credit to income of $7 million or $.07 per share, basic and diluted. The cumulative effect is included in income for the year ended December 31, 2003. The effect of the change on the year 2003 was to increase income before the cumulative effect of the accounting change by $3 million, after-tax ($.03 per share diluted).

7. Asset Retirement Obligations

The following table describes changes to the Corporation's asset retirement obligations:

(Millions of dollars)	2004	2003
Asset retirement obligations at January 1	$462	$ 556
Liabilities incurred	2	15
Liabilities settled or disposed of	(40)	(173)
Accretion expense	24	28
Revisions	49	25
Foreign currency translation	14	11
Asset retirement obligations at December 31	$511	$ 462

Deferred Credits

2.260

BMC SOFTWARE, INC. (MAR)

(In millions)	2003	2004
Total current liabilities	$ 838.8	$ 986.9
Long-term deferred revenue	607.1	733.2
Other long-term liabilities	91.1	109.5
Total liabilities	$1,537.0	$1,829.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

h) Deferred Revenue

Deferred revenue is comprised of deferred maintenance, license and professional services revenues. Deferred maintenance revenue is not recorded until it has been collected or is supported by a formal, financing arrangement, and is recognized in the consolidated statement of operations over the term of the arrangement, which terms primarily range from one to five years. The principal components of deferred revenue as of March 31, 2003 and 2004 are as follows:

(In millions)	2003	2004
Current:		
Maintenance, enhancement and support	$ 443.0	$ 491.9
License	88.1	148.1
Professional services	30.5	28.4
Total current deferred revenue	561.6	668.4
Long-term:		
Maintenance, enhancement and support	477.0	529.0
License	130.1	204.2
Total long-term deferred revenue	607.1	733.2
Total deferred revenue	$1,168.7	$1,401.6

j) Revenue Recognition

The Company generates revenues from licensing software, providing maintenance, enhancement and support, or post contract support ("PCS"), for previously licensed products and providing professional services. The Company utilizes written contracts as the means to establish the terms and conditions by which the Company's products, support and services are sold to its customers.

The Company recognizes revenue in accordance with AICPA SOP 97-2, "Software Revenue Recognition" and SOP 98-9, "Modification of SOP 97-2, *Software Revenue Recognition*, With Respect to Certain Transactions." These statements provide guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. In applying these statements, the Company recognizes software license fees upon meeting the following four criteria: execution of the signed contract, delivery of the underlying products to the customer and the acceptance of such products by the customer, determination that the software license fees are fixed or determinable, and determination that collection of the software license fees is probable. In instances when any one of the four criteria is not met, the Company will defer recognition of the software license revenue until the criteria are met, as required by SOPs 97-2 and 98-9. PCS revenues are recognized ratably over the term of the arrangement on a straight-line basis. Revenues from license and maintenance transactions that are financed are generally recognized in the same manner as those requiring current payment. The Company has an established business practice of offering installment contracts to customers and has a history of successfully enforcing original payment terms without making concessions. Revenues earned from transactions with agents, distributors or resellers (collectively, "resellers") are recorded on a net basis as the resellers are the principals in the transactions executed with the end users and the rewards of ownership are passed to the resellers upon the execution of the Company's arrangement with the resellers. There is no right of return, rotation or price protection for sales to resellers. The Company's policy is to accept orders from resellers that include evidence of an end-user agreement. On occasion, the Company has purchased goods or services for its operations from customers at or about the same time that the Company licensed software to these customers. License revenues from such transactions represent less than one percent of total license revenues in any period. Professional services revenues also include sales of third-party software products which typically support the Company's product lines. These revenues are recorded net of amounts payable to the third-party software vendors. Revenues from professional services are recognized as the services are performed.

When several elements, including software license, PCS and professional services, are sold to a customer through a single contract, the revenues from such multiple-element arrangements are allocated to each element based upon the residual method, whereby the fair value of the undelivered elements of the contract is deferred until such time as that element is delivered, or in the case of PCS, such revenue is recognized ratably over the PCS term. The Company has established vendor-specific objective evidence of the fair value of the PCS through the renewal rates established in contractual arrangement with our customers and through monitoring independent sales of the Company's PCS at the stated renewal rates. The Company has established a consistent relationship by pricing PCS as a percentage of the license amount. The Company has established vendor-specific objective evidence of the fair value of our professional services based on the daily rates charged to our customers in stand-alone contracts. Accordingly, software license fees are recognized under the residual method for arrangements in which the software is licensed with maintenance, enhancement and support and/or professional services, and where the maintenance, enhancement and support and/or professional services are not essential to the functionality of the delivered software. In the event a contract contains terms, which are inconsistent with the Company's vendor-specific objective evidence, all revenues from the contract are deferred until such evidence is established or are recognized on a ratable basis.

RESERVES—USE OF THE TERM "RESERVE"

2.261 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.

2.262

TABLE 2-32: USE OF TERM "RESERVE"

	Number of Companies			
	2004	**2003**	**2002**	**2001**
To Describe Deductions From Assets for				
Reducing inventories to LIFO cost	36	26	23	33
Inventory obsolescence	26	14	19	15
Doubtful accounts	13	12	13	19
Accumulated depreciation	3	3	3	5
Other—described	10	4	9	6
To Describe Accruals for				
Estimated expenses relating to property abandonments or discontinued operations	66	34	26	25
Warranty	49	28	6	3
Environmental costs	45	25	18	16
Insurance	42	21	13	18
Litigation	34	14	7	4
Employee benefits or compensation	10	3	3	2
Other—described	35	12	14	13

TITLE OF STOCKHOLDERS' EQUITY SECTION

2.263 Table 2-33 summarizes the titles used by the survey companies to identify the sotckholders' equity section of the balance sheet.

2.264

TABLE 2-33: TITLE OF STOCKHOLDERS' EQUITY SECTION

	2004	**2003**	**2002**	**2001**
Stockholders' equity	300	294	299	292
Shareholders' equity	236	232	222	226
Shareowners' equity	19	21	20	21
Shareholders' investment	7	8	9	14
Common stockholders' equity	6	6	5	5
Common shareholders' equity	2	5	6	6
Term deficit or deficiency in title	19	23	30	22
Other or no title	11	11	9	14
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

2.265 Effective for periods ending after December 15, 1997, SFAS No. 129, *Disclosure of Information about Capital Structure*, states the diclosure requirements for the capital structure of an entity.

2.266 Table 2-34 summarizes the capital structures disclosed on the balance sheets of the survey companies.

2.267

TABLE 2-34: CAPITAL STRUCTURES

	2004	2003	2002	2001
Common Stock With:				
No preferred stock	537	516	502	507
One class of preferred stock	53	73	81	80
Two classes of preferred stock	8	9	14	10
Three of more classes of preferred stock	2	2	3	3
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	64	62	70	59

COMMON STOCK

2.268 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.

2.269

TABLE 2-35: COMMON STOCK

	2004	2003	2002	2001
Par value stock shown at:				
Par value	580	570	577	564
Amount in excess of par	15	17	21	29
Assigned per share amount	6	8	1	5
No par value stock shown at:				
Assigned per share amount	10	6	4	7
No assigned per share amount	51	54	57	61
Issues Outstanding	**662**	**655**	**660**	**666**

PREFERRED STOCK

2.270 *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.

2.271 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.

2.272

TABLE 2-36: PREFERRED STOCK

	Number of Companies			
	2004	2003	2002	2001
Par value stock shown at:				
Par value	22	30	42	39
Liquidation or redemption value	11	16	13	12
Fair value at issuance date	2	2	2	4
Assigned per share amount	—	1	3	4
Other	—	2	4	5
No par value stock shown at:				
Liquidation or redemption value	11	15	13	9
Assigned per share amount	5	9	8	7
Fair value at issuance date	1	—	1	1
No assigned per share amount	10	19	10	10
Number of Companies				
Preferred stock outstanding	61	88	93	89
No preferred stock outstanding	539	512	507	511
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended at Par Value

2.273

SEQUA CORPORATION (DEC)

(Amounts in thousands, except share data)	2004	2003
Shareholders' equity		
Preferred stock—$1 par value, 1,825,000 shares authorized; 797,000 shares of $5 cumulative convertible stock issued at December 31, 2004 and 2003 (involuntary liquidation value—$17,181 at December 31, 2004)	$ 797	$ 797
Class A common stock—no par value, 50,000,000 shares authorized; 7,410,000 shares issued at December 31, 2004 and 7,321,000 shares issued at December 31, 2003	7,410	7,321
Class B common stock—no par value 10,000,000 shares authorized; 3,727,000 shares issued at December 31, 2004 and 2003	3,727	3,727
Capital in excess of par value	294,092	290,043
Retained earnings	400,571	383,408
Accumulated other comprehensive income (loss)	41,994	(9,398)
	748,591	675,898
Less: cost of treasury stock	77,530	77,807
Total shareholders' equity	$671,061	$598,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Capital Stock

Sequa's capital stock consist 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.

On October 30, 2000, the Board of directors declared a dividend distribution, pursuant to the adoption on that day of a Rights Agreement, of one Right for each outstanding share of Class A and Class B common stock. The distribution was payable to holders of record on December 1, 2000. Each Right entitles the registered holder to purchase from Sequa one one-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $200, subject to adjustment. The Rights become exercisable on the "Distribution Date," which is the earlier of (i) ten days after public announcement that a person or group (subject to certain exceptions) acquires, has the right to acquire or has commenced a tender offer for the beneficial ownership of Class A and Class B common stock, and other voting securities, that have one-third or more of the aggregate voting power of all outstanding shares of voting stock or (ii) ten days (or such later date determined by the Board of Directors in certain circumstances) following the commencement or announcement of an intention to make a tender or exchange offer which would result in the acquisition of (or the right to acquire) one-third or more of the aggregate voting power of all outstanding shares of voting stock. The Rights are nonvoting, pay no dividends, expire on October 31, 2010 and may be redeemed by Sequa for $.001 per Right at any time on or before the Distribution Date. The Rights have no effect on earnings per share until they become exercisable.

Once the Junior Preferred Stock is issued, in the event of any merger, consolidation, combination or other transaction in which shares of Class A and Class B common stock are exchanged for or changed into other stock, securities, cash and/or other property; each share of Junior Preferred Stock will be entitled to receive 1,000 times the aggregate amount of stock, securities, cash and/or other property into which or for which each share of Class A and Class B common stock is changed or exchanged, subject to certain adjustments.

At December 31, 2004, 4,322,287 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:

	2004	2003	2002
Class A common stock	207,263	212,225	218,809
Class B common stock	397,283	397,283	397,283
Preferred stock	383,990	383,990	383,990

During the years ended December 31, 2004 and 2003, no cash dividends were declared on Sequa Class A common shares or Class B common shares.

Preferred Stock Extended at Liquidating Value

2.274

ALLIED WASTE INDUSTRIES, INC. (DEC)

(In millions, except per share amounts)	2004	2003
Stockholders' equity		
Series C senior mandatory convertible preferred stock, $0.10 par value, 6.9 million shares authorized, issued and outstanding, liquidation preference of $50.00 per share, net of $12.0 million of issuance costs	$ 333.1	$ 333.1
Common stock; $0.01 par value; 525 million authorized shares; 317.5 million and 320.1 million shares issued and outstanding	3.2	3.2
Additional paid-in capital	2,338.0	2,318.5
Accumulated other comprehensive loss	(69.4)	(94.5)
Retained deficit	—	(42.6)
Total stockholders' equity	$2,604.9	$2,517.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Preferred Stock

Mandatory Convertible Preferred Stock

On April 9, 2003, we issued 6.9 million shares of Series C Mandatory Convertible Preferred Stock (Series C Preferred Stock), par value $0.10 at $50 per share, through a public offering for net proceeds of approximately $333 million. The Series C Preferred Stock has a dividend rate of 6.25%. The Series C Preferred Stock is mandatorily convertible on April 1, 2006. On the conversion date, each share of Series C Preferred Stock will automatically convert into shares of common stock based on the following conversion table:

Applicable Market Value of Common Shares	Conversion Rate
Less than or equal to $8.30	6.02:1
Between $8.30 and $10.13	6.02:1 to 4.94:1
Equal to or greater than $10.13	4.94:1

The Series C Preferred Stock is convertible into common stock at any time prior to April 1, 2006 at the option of the holder at a conversion rate of 4.94. Any time prior to April 1, 2006, the Series C Preferred. Stock can be required to be converted at our option if the closing price of our common stock is greater than $15.20 for 20 days within a 30-day consecutive period. If the conversion is required by us, we are required to pay the present value of the remaining dividend payments through April 1, 2006.

Preferred Stock Extended at Redemption Value

2.275

CHAMPION ENTERPRISES, INC. (DEC)

(In thousands, except par value)	2004	2003
Redeemable convertible preferred stock, no par value, 5,000 shares authorized, 21 shares and 9 shares issued and outstanding, respectively	$ 20,750	$ 8,689
Shareholders' equity		
Common stock, $1 par value, 120,000 shares authorized, 72,358 and 65,470 shares issued and outstanding, respectively	72,358	65,470
Capital in excess of par value	164,377	125,386
Accumulated deficit	(159,375)	(175,450)
Accumulated other comprehensive loss	(60)	(417)
Total shareholders' equity	$ 77,300	$ 14,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Redeemable Convertible Preferred Stock

At January 1, 2005 redeemable convertible preferred stock consisted of Series C with a carrying value and redemption value of $8.75 million and Series B-2 with a carrying value and redemption value of $12.0 million. The preferred stock has a 5% annual dividend that is payable quarterly, at the Company's option, in cash or common stock. The Series C preferred stock has a seven-year term expiring April 2, 2009. The Series B-2 preferred stock, which was issued in 2004 upon the preferred shareholder's exercise of its right, has a four-year term expiring July 8, 2008.

During 2003, the terms of the Series C preferred stock were amended to accelerate the modification of the conversion price to $5.66 and the preferred shareholder agreed to convert $16.25 million of the Series C preferred stock by March 12, 2003. Upon conversion, 2.9 million shares of common stock were issued. This amendment to the preferred stock terms was accounted for as an induced conversion, resulting in a charge to retained earnings of $3.5 million.

In connection with the issuance of the Series C preferred stock in 2002, the Company issued to the preferred shareholder a warrant, which currently is exercisable based on approximately 2.2 million shares at a strike price of $11.52 per share. Annually, on April 2 of each year, the warrant strike price increases by $0.75 per share. The warrant expires on April 2, 2009 and is exercisable only on a non-cash, net basis, whereby the warrant holder would receive shares of common stock as payment for any net gain upon exercise. During 2004 and 2003, as a result of an increase in the Company's common stock price, the Company recorded charges of $5.5 million and $3.3 million, respectively, for the change in estimated fair value of this warrant.

During 2003, the preferred shareholder redeemed $5.0 million of Series B-1 preferred stock for 0.9 million shares of the Company's common stock.

Note 11 (In Part): Shareholders' Equity

The Company has 120 million shares of common stock authorized. In addition, there are 5 million authorized shares of preferred stock, without par value, the issuance of which is subject to approval by the Board of Directors. The Board has the authority to fix the number, rights, preferences and limitations of the shares of each series, subject to applicable laws and the provisions of the Articles of Incorporation. At January 1, 2005 and January 3, 2004 the Company had 20,750 and 8,750 shares of cumulative convertible preferred stock, respectively, issued and outstanding. See Note 9.

Preferred Stock Extended at Fair Value at Issuance Date

2.276

SCHERING-PLOUGH CORPORATION (DEC)

(Amounts in millions, except per share figures)	2004	2003
Shareholders' equity:		
Mandatory convertible preferred shares—$1 par value; issued: 29; $50 per share face value	$ 1,438	$ —
Common shares—authorized shares: 2,400, $.50 par value; issued: 2,030	1,015	1,015
Paid-in capital	1,234	1,272
Retained earnings	9,613	10,918
Accumulated other comprehensive income	(300)	(426)
Total	13,000	12,779
Less treasury shares: 2004, 555; 2003, 559; at cost	5,444	5,442
Total shareholders' equity	$ 7,556	$ 7,337

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

10 (In Part): Shareholders' Equity

The Company has authorized 50,000,000 shares of preferred stock that consists of: 12,000,000 preferred shares designated as Series A Junior Participating Preferred Stock, 28,750,000 preferred shares designated as 6% Mandatory Convertible Preferred Stock, and 9,250,000 preferred shares whose designations have not yet been determined.

Mandatory Convertible Preferred Stock

On August 10, 2004, the Company issued 28,750,000 shares of 6% mandatory convertible preferred stock (the Preferred Stock) with a face value of $1.44 billion. Net proceeds to the Company were $1.4 billion after deducting commissions, discounts and other underwriting expenses. The proceeds are being used for general corporate purposes, including the reduction of commercial paper borrowings.

The mandatory conversion date of the shares is September 14, 2007. On this date, each share will automatically convert into between 2.2451 and 2.7840 common shares of the Company depending on the average closing price of the Company's common shares over a period immediately preceding the mandatory conversion date, as defined in the prospectus. The preferred shareholders may elect to convert at any time prior to September 14, 2007, at the minimum conversion ratio of 2.2451 common shares per share of the Preferred Stock. Additionally, if at any time prior to the mandatory conversion date, the closing price of the Company's common shares exceeds $33.41 (for at least 20 trading days within a period of 30 consecutive trading days), the Company may elect to cause the conversion of all, but not less than all, of the Preferred Stock then outstanding at the same minimum conversion ratio of 2.2451 common shares for each preferred share.

The Preferred Stock accrues dividends at an annual rate of 6 percent on shares outstanding. The dividends are cumulative from the date of issuance and, to the extent the Company is legally permitted to pay dividends and the Board of Directors declares a dividend payable, the Company will pay dividends on each dividend payment date. The dividend payment dates are March 15, June 15, September 15 and December 15, with the first dividend having been paid on December 15, 2004.

ADDITIONAL PAID-IN CAPITAL

2.277 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.

2.278

TABLE 2-37: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	2004	2003	2002	2001
Additional paid-in capital	327	313	305	293
Capital in excess of par or stated value	105	111	113	118
Paid-in capital	53	59	57	56
Additional capital, or other capital	22	23	23	28
Capital surplus	17	17	17	17
Paid-in surplus	—	—	—	2
Other captions	16	12	14	13
	540	**535**	**529**	**527**
No additional paid-in capital account	60	65	71	73
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

2.279 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.

2.280

TABLE 2-38: RETAINED EARNINGS—CAPTION TITLE

	2004	2003	2002	2001
Retained earnings	469	461	457	471
Retained earnings with additional words	3	4	4	6
Earnings with additional words	22	24	24	22
Income with additional words	6	8	9	10
Earned surplus	—	—	—	1
Retained earnings (deficit)	18	23	36	31
Accumulated deficit	80	78	68	56
Other	2	2	2	3
Total Companies	**600**	**600**	**600**	**600**

ACCUMULATED OTHER COMPREHENSIVE INCOME

2.281 SFAS No. 130, *Reporting Comprehensive Income*, requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances, by component, included in accumulated other comprehensive income must be disclosed either in the equity section of the balance sheet, or in a statement of changes of stockholders' equity, or in notes to the financial statements.

2.282 Table 2-39 summarizes the captions used to describe comprehensive income in the stockholders' equity section of the balance sheet.

2.283 Table 2-40 shows where accumulated component balances are presented.

2.284 Examples showing the disclosure of accumulated balances for other comprehensive income items follow.

2.285

TABLE 2-39: ACCUMULATED OTHER COMPREHENSIVE INCOME—BALANCE SHEET CAPTION

	2004	2003	2002	2001
Accumulated other comprehensive loss	215	245	304	262
Accumulated other comprehensive income (loss)	103	60	116	91
Accumulated other comprehensive income	174	99	91	131
Accumulated other non-owner changes in equity	6	7	5	5
Other captions	18	13	10	13
	516	**524**	**526**	**502**
Accumulated balance by component presented	51	50	49	51
	567	**574**	**575**	**553**
No accumulated other comprehensive income	33	26	25	47
Total Companies	**600**	**600**	**600**	**600**
		Number of Companies		
Accumulated Balances by Component Presented				
Cumulative translation adjustments	41	47	35	44
Minimum pension liability adjustments	38	39	31	21
Unrealized losses/gains on certain investments	26	25	25	26
Changes in fair value of derivatives	24	29	19	15

2.286

TABLE 2-40: ACCUMULATED OTHER COMPREHENSIVE INCOME—PRESENTATION OF COMPONENT BALANCES

	2004	2003	2002	2001
Notes to financial statements	305	278	215	186
Statement of changes in stockholders' equity	90	113	191	194
Stockholders' equity section of the balance sheet	51	50	49	51
Statement of comprehensive income	9	8	7	4
Component balances not presented	112	125	113	118
	567	**574**	**575**	**553**
No accumulated other comprehensive income	33	26	25	47
Total Companies	**600**	**600**	**600**	**600**

Notes to Financial Statements

2.287

AVERY DENNISON CORPORATION (DEC)

(Dollars in millions)	2004	2003
Shareholders' equity:		
Common stock, $1 par value, authorized–400,000,000 shares at year end 2004 and 2003; issued–124,126,624 shares at year end 2004 and 2003; outstanding–100,113,127 shares and 99,569,383 shares at year end 2004 and 2003, respectively	$ 124.1	$ 124.1
Capital in excess of par value	766.1	703.7
Retained earnings	1,887.6	1,772.5
Cost of unallocated ESOP shares	(9.7)	(11.6)
Employee stock benefit trusts, 10,343,648 shares and 10,897,033 shares at year end 2004 and 2003, respectively	(619.1)	(595.4)
Treasury stock at cost, 13,669,849 shares and 13,660,208 shares at year end 2004 and 2003, respectively	(597.6)	(597.0)
Accumulated other comprehensive loss	(2.7)	(77.6)
Total shareholders' equity	$1,548.7	$1,318.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was $354.6 million and $395.2 million for 2004 and 2003, respectively.

The components of accumulated other comprehensive loss at year end were as follows:

(In millions)	2004	2003
Foreign currency translation adjustment	$ 127.2	$ 39.3
Minimum pension liability	(110.9)	(96.0)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(19.0)	(20.9)
Total accumulated other comprehensive loss	$ (2.7)	$(77.6)

Cash flow and firm commitment hedging instrument activity in other comprehensive income (loss), net of tax, was as follows:

(In millions)	2004	2003
Beginning accumulated derivative loss	$(20.9)	$(25.3)
Net loss (gain) reclassified to earnings	6.1	(1.4)
Net change in the revaluation of hedging transactions	(4.2)	5.8
Ending accumulated derivative loss	$(19.0)	$(20.9)

In connection with the issuance of the $250 million 10-year senior notes in January 2003, the Company settled a forward starting interest rate swap at a loss of approximately $32.5 million. This unrecognized loss is being amortized to interest expense over 10 years, which corresponds to the term of the related debt. The related interest expense recognized during 2004 and 2003 was approximately $2.5 million and $2.4 million, respectively.

2.288

OLIN CORPORATION (DEC)

($ in millions, except per share data)	2004	2003
Shareholders' equity:		
Common stock, par value $1 per share: authorized 120,000,000 shares, issued and outstanding 70,566,902 shares (59,015,087 in 2003)	$ 71	$ 59
Additional paid-in capital	659	464
Accumulated other comprehensive loss	(273)	(247)
Accumulated deficit	(101)	(100)
Total shareholders' equity	$ 356	$ 176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($ in millions)

Accounting Policies (In Part)

Comprehensive Income (Loss)

We calculated comprehensive income (loss) in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accumulated Other Comprehensive Loss at December 31, 2004 includes cumulative translation losses of $4 ($6 at December 31, 2003), minimum pension liability, net of tax of $268 ($245 at December 31, 2003) and other unrealized losses (gains), net of tax, of $1 ($(4) at December 31, 2003). We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries.

Statement of Changes in Stockholders' Equity

2.289

EXIDE TECHNOLOGIES (MAR)

Consolidated Statements of Stockholders' Deficit

					Accumulated Other Comprehensive Loss			
(In thousands, except per-share data)	Common Stock	Additional Paid-In Capital	Notes Receivable—Stock Award Plan	Accumulated Deficit	Minimum Pension Liability, Net of Tax	Cumulative Translation Adjustment	Derivatives Qualifying as Hedges	Comprehensive Loss
Balance at March 31, 2001	$255	$531,179	$(665)	$ (485,986)	$ (36,554)	$(264,868)	$ —	
Net loss for fiscal 2002	—	—	—	(304,082)	—	—	—	$(304,082)
Minimum pension liability adjustment, net of tax	—	—	—	—	(23,303)	—	—	(23,303)
Cumulative effect of change in accounting principle	—	—	—	—	—	—	541	541
Change in fair value of cash flow hedges	—	—	—	—	—	—	(4,981)	(4,981)
Reclassification to earnings	—	—	—	—	—	—	2,357	2,357
Translation adjustment	—	—	—	—	—	(8,013)	—	(8,013)
Comprehensive loss								$(337,481)
Common stock issued under employee stock purchase plan	—	17	—	—	—	—	—	
Common stock issued in debt for equity transaction	19	39,393	—	—	—	—	—	
Cash dividends paid ($0.04/share)	—	—	—	(1,051)	—	—	—	
Balance at March 31, 2002	$274	$570,589	$(665)	$ (791,119)	$ (59,857)	$ (272,881)	$(2,083)	

(continued)

(In thousands, except per-share data)	Common Stock	Additional Paid-In Capital	Notes Receivable —Stock Award Plan	Accumulated Deficit	Accumulated Other Comprehensive Loss: Minimum Pension Liability, Net of Tax	Accumulated Other Comprehensive Loss: Cumulative Translation Adjustment	Accumulated Other Comprehensive Loss: Derivatives Qualifying as Hedges	Comprehensive Loss
Balance at March 31, 2002	$274	$570,589	$(665)	$ (791,119)	$ (59,857)	$(272,881)	$(2,083)	
Net loss for fiscal 2003	—	—	—	(140,885)	—	—	—	$(140,885)
Minimum pension liability adjustment, net of tax	—	—	—	—	(77,650)	—	—	(77,650)
Reclassification to earnings	—	—	—	—	—	—	2,083	2,083
Translation adjustment	—	—	—	—	—	76,825	—	76,825
Comprehensive loss								$(139,627)
Balance at March 31, 2003	$274	$570,589	$(665)	$ (932,004)	$(137,507)	$(196,056)	$ —	
Net loss for fiscal 2004				(114,083)				$(114,083)
Minimum pension liability adjustment, net of tax					(18,391)			(18,391)
Translation adjustment						58,074		58,074
Comprehensive loss								$ (74,400)
Balance at March 31, 2004	$274	$570,589	$(665)	$(1,046,087)	$(155,898)	$(137,982)	$ —	

2.290

THE LAMSON & SESSIONS CO. (DEC)

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)	Common Shares	Other Capital	Retained Earnings (Deficit)	Accumulative Other Comprehensive Income (Loss): Interest Rate Swaps	Accumulative Other Comprehensive Income (Loss): Foreign Currency Translation	Accumulative Other Comprehensive Income (Loss): Minimum Pension Liability	Total Shareholders' Equity
Balance at December 29, 2001	$1,378	$75,499	$ 6,393	$(1,034)	$(591)	$ (421)	$ 81,224
Net loss	—	—	(41,224)	—	—	—	(41,224)
Other comprehensive income (loss):							
Foreign currency translation	—	—	—	—	(23)	—	(23)
Minimum pension liability, net of $2,100 tax	—	—	—	—	—	(3,285)	(3,285)
Interest rate swaps	—	—	—	(516)	—	—	(516)
Total comprehensive income (loss)							(45,048)
Balance at December 28, 2002	$1,378	$75,499	$(34,831)	$(1,550)	$(614)	$(3,706)	$ 36,176
Net income	—	—	1,002	—	—	—	1,002
Other comprehensive income:							
Foreign currency translation	—	—	—	—	173	—	173
Minimum pension liability, net of $266 tax	—	—	—	—	—	417	417
Interest rate swaps, net of $454 tax	—	—	—	711	—	—	711
Total comprehensive income							2,303
Issuance of 9,537 shares under employee benefit plans	1	35	—	—	—	—	36
Balance at January 3, 2004	$1,379	$75,534	$(33,829)	$ (839)	$(441)	$(3,289)	$ 38,515
Net income	—	—	6,549	—	—	—	6,549
Other comprehensive income (loss):							
Foreign currency translation	—	—	—	—	70	—	70
Minimum pension liability, net of $661 tax	—	—	—	—	—	(1,034)	(1,034)
Interest rate swaps, net of $429 tax	—	—	—	670	—	—	670
Total comprehensive income							6,255
Issuance of 125,897 shares under employee benefit plans	12	799					811
Purchase and retirement of 26,079 shares of treasury stock	(2)	(203)	—	—	—	—	(205)
Balance at January 1, 2005	$1,389	$76,130	$(27,280)	$ (169)	$(371)	$(4,323)	$ 45,376

Equity Section of Balance Sheet

2.291

MEDIA GENERAL, INC. (DEC)

(In thousands, except shares and per share amounts)	2004	2003
Stockholders' equity:		
Preferred stock ($5 cumulative convertible), par value $5 per share:		
Authorized 5,000,000 shares; none outstanding		
Common stock, par value $5 per share:		
Class A, authorized 75,000,000 shares; issued 23,230,109 and 22,989,506 shares	$ 116,150	$ 114,947
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	46,067	34,595
Accumulated other comprehensive income (loss):		
Unrealized gain on equity securities	2,222	3,498
Unrealized loss on derivative contracts	(5,971)	(9,757)
Minimum pension liability	(46,903)	(44,725)
Unearned compensation	(9,408)	(11,670)
Retained earnings	1,078,832	1,017,793
Total stockholders' equity	$1,183,769	$1,107,461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income

The Company's comprehensive income consists of net income, minimum pension liability adjustments, unrealized gains and losses on certain investments in equity securities (including reclassification adjustments), and changes in the value of derivative contracts as well as the Company's share of OCI from its investments accounted for under the equity method.

2.292

PALL CORPORATION (JUL)

(In thousands, except per share data)	2004	2003
Stockholders' equity:		
Common stock, par value $.10 per share; 500,000 shares authorized; 127,958 shares issued	$ 12,796	$ 12,796
Capital in excess of par value	115,489	109,616
Retained earnings	984,117	884,690
Treasury stock, at cost (2004–3,937 shares, 2003–3,276 shares)	(92,047)	(70,198)
Stock option loans	(2,308)	(1,955)
Accumulated other comprehensive income (loss):		
Foreign currency translation	77,585	28,906
Minimum pension liability	(37,559)	(33,054)
Unrealized investment (losses) gains	(3,275)	4,435
Unrealized losses on derivatives	(359)	(700)
	36,392	(413)
Total stockholders' equity	$1,054,439	$934,536

TREASURY STOCK

2.293 APB Opinion No. 6, *Status of Accounting Research Bulletins*, discusses the balance sheet presentation of treasury stock. As shown in Tabl 2-41, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

2.294 Examples of treasury stock presentations follow.

2.295

TABLE 2-41: TREASURY STOCK—BALANCE SHEET PRESENTATION

	2004	2003	2002	2001
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	363	370	365	362
Cost of treasury stock deducted from stock of the same class	18	14	16	10
Par or stated value of treasury stock deducted from issued stock of the same class	10	12	14	19
Other	7	2	1	6
Total Presentations	**398**	**398**	**396**	**397**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	—	2	1	2
Par or stated value of treasury stock deducted from issued stock of the same class	1	—	2	1
Other	1	2	2	2
Total Presentations	**2**	**4**	**5**	**5**
Number of Companies				
Disclosing treasury stock	398	399	397	396
Not disclosing treasury stock	202	201	203	204
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

2.296

CUMMINS INC. (DEC)

(Dollars in millions, except par value)	2004	2003
Shareholders' equity (Note 14)		
Common stock, $2.50 par value, 150 million shares authorized, 48.2 and 48.3 million shares issued	$ 121	$ 121
Additional contributed capital	1,167	1,113
Retained earnings	866	569
Accumulated other comprehensive loss		
Minimum pension liability	(499)	(434)
Other components, net	(41)	(58)
Common stock in treasury, at cost, 2.2 and 5.6 million shares	(88)	(225)
Common stock held in trust for employee benefit plans, 2.2 and 2.3 million shares	(104)	(113)
Unearned compensation	(21)	(24)
Total shareholders' equity	$1,401	$ 949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Treasury Stock

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of shareholders' equity in our *Consolidated Balance Sheets*. From time to time, treasury shares may be reissued as part of our stock based compensation programs. When shares are reissued, we use the weighted average cost method for determining cost. The difference between the cost of the shares and the issuance price is added or deducted from additional contributed capital.

Note 14 (In Part): Shareholders' Equity

Treasury Stock

In a series of authorizations beginning in 1994, our Board of Directors authorized the purchase of up to 8 million shares of Cummins common stock in the open market. As of December 31, 2004, we had purchased approximately 5.5 million treasury shares under that authorization, with the last purchase occurring in 2000. Treasury stock activity for the three-year period ended December 31, 2004, consisting of shares issued and the respective amounts thereof is presented in the *Consolidated Statements of Shareholders' Equity*.

2.297

JOHNSON & JOHNSON (DEC)

(Dollars in millions except share and per share data)	2004	2003
Shareholders' equity		
Preferred stock—without par value (authorized and unissued 2,000,000 shares)	$ —	$ —
Common stock—par value $1.00 per share (Note 20) (authorized 4,320,000,000 shares; issued 3,119,842,000 shares)	3,120	3,120
Note receivable from employee stock ownership plan	(11)	(18)
Accumulated other comprehensive income	(515)	(590)
Retained earnings	35,223	30,503
	37,817	33,015
Less: Common stock held in treasury, at cost (Note 20) (148,819,000 and 151,869,000)	6,004	6,146
Total shareholders' equity	$31,813	$26,869

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Capital and Treasury Stock

Changes in treasury stock were:

(Amounts in millions except number of shares in thousands)	Treasury Stock	
	Shares	Amount
Balance at December 30, 2001	72,627	$1,393
Employee compensation and stock option plans	(22,720)	(1,295)
Conversion of subordinated debentures	(5,742)	(353)
Repurchase of common stock	107,382	6,382
Balance at December 29, 2002	151,547	6,127
Employee compensation and stock option plans	(21,729)	(1,160)
Conversion of subordinated debentures	(83)	(4)
Repurchase of common stock	22,134	1,183
Balance at December 28, 2003	151,869	6,146
Employee compensation and stock option plans	(25,340)	(1,403)
Conversion of subordinated debentures	(2,432)	(123)
Repurchase of common stock	24,722	1,384
Balance at January 2, 2005	148,819	$6,004

Shares of common stock issued were 3,119,842,000 shares at the end of 2004, 2003 and 2002.

Cash dividends paid were $1.095 per share in 2004, compared with dividends of $0.925 per share in 2003 and $0.795 per share in 2002.

Par Value of Treasury Stock Deducted From Issued Stock

2.298

THE TJX COMPANIES, INC. (JAN)

Consolidated Balance Sheets

(In thousands)	2005	2004
Shareholders' equity		
Common stock, authorized 1,200,000,000 shares, par value $1, issued and outstanding 480,699,154 and 499,181,639 shares, respectively	$ 480,699	$ 499,182
Additional paid-in capital	—	—
Accumulated other comprehensive income (loss)	(26,245)	(13,584)
Unearned stock compensation	(10,010)	(12,310)
Retained earnings	1,209,038	1,079,100
Total shareholders' equity	$1,653,482	$1,552,388

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Par Value $1	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Retained Earnings	Total
Balance, January 26, 2002	271,538	$271,538	$ —	$ (6,755)	$ (4,654)	$1,080,569	$1,340,698
Comprehensive income:							
Net income	—	—	—	—	—	578,388	578,388
Gain due to foreign currency translation adjustments	—	—	—	23,006	—	—	23,006
(Loss) on hedge contracts	—	—	—	(23,241)	—	—	(23,241)
Minimum pension liability adjustment	—	—	—	3,826	—	—	3,826
Total comprehensive income							581,979
Stock split, two-for-one	269,431	269,431	—	—	—	(269,431)	—
Cash dividends declared on common stock	—	—	—	—	—	(63,421)	(63,421)
Restricted stock awards granted and fair market value adjustments	325	325	5,870	—	(6,195)	—	—
Amortization of unearned stock compensation	—	—	—	—	3,197	—	3,197
Issuance of common stock under stock incentive plans and related tax benefits	2,505	2,505	41,794	—	—	—	44,299
Common stock repurchased	(23,284)	(23,284)	(47,664)	—	—	(426,657)	(497,605)
Balance, January 25, 2003	520,515	520,515	—	(3,164)	(7,652)	899,448	1,409,147
Comprehensive income:							
Net income	—	—	—	—	—	658,365	658,365
Gain due to foreign currency translation adjustments	—	—	—	14,323	—	—	14,323
(Loss) on hedge contracts	—	—	—	(24,743)	—	—	(24,743)
Total comprehensive income							647,945
Cash dividends declared on common stock	—	—	—	—	—	(70,745)	(70,745)
Restricted stock awards granted and fair market value adjustments	600	600	14,266	—	(14,866)	—	—
Amortization of unearned stock compensation	—	—	—	—	10,208	—	10,208
Issuance of common stock under stock incentive plans and related tax benefits	4,890	4,890	66,212	—	—	—	71,102
Common stock repurchased	(26,823)	(26,823)	(80,478)	—	—	(407,968)	(515,269)
Balance, January 31, 2004	499,182	$499,182	$ —	$(13,584)	$(12,310)	$1,079,100	$1,552,388

(*continued*)

(In thousands)	Common Stock Shares	Common Stock Par Value $1	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Retained Earnings	Total
Balance, January 31, 2004	499,182	$499,182	$ —	$(13,584)	$(12,310)	$1,079,100	$1,552,388
Comprehensive income:							
Net income	—	—	—	—	—	664,144	664,144
(Loss) due to foreign currency translation adjustments	—	—	—	(10,681)	—	—	(10,681)
Gain on net investment hedge contracts	—	—	—	3,759	—	—	3,759
(Loss) on cash flow hedge contract	—	—	—	(19,652)	—	—	(19,652)
Amount of cash flow hedge reclassified from other comprehensive income to net income	—	—	—	13,913	—	—	13,913
Total comprehensive income							651,483
Cash dividends declared on common stock	—	—	—	—	—	(87,578)	(87,578)
Restricted stock awards granted and fair market value adjustments	220	220	6,859	—	(7,079)	—	—
Amortization of unearned stock compensation	—	—	—	—	9,379	—	9,379
Issuance of common stock under stock incentive plans and related tax benefits	6,447	6,447	109,286	—	—	—	115,733
Common stock repurchased	(25,150)	(25,150)	(116,145)	—	—	(446,628)	(587,923)
Balance, January 29, 2005	480,699	$480,699	$ —	$(26,245)	$(10,010)	$1,209,038	$1,653,482

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Accounting Policies

Common Stock and Equity (In Part)

TJX's equity transactions consist primarily of the repurchase of our common stock under our stock repurchase program and the issuance of common stock under our stock incentive plan. Under the stock repurchase program we repurchase our common stock on the open market. The par value of the shares repurchased is charged to common stock with the excess of the purchase price over par first charged against any available additional paid-in capital ("APIC") and the balance charged to retained earnings. Due to the high volume of repurchases over the past several years we have no remaining balance in APIC. Virtually all shares are retired when purchased. We have 250,276 shares held in treasury which are reflected as a reduction to common stock outstanding.

G (In Part): Capital Stock and Earnings Per Share

Capital Stock (In Part)

During fiscal 2003, we completed a $1 billion stock repurchase program begun in fiscal 2001 and initiated another multi-year $1 billion stock repurchase program. This repurchase program was completed in May 2004. On May 24, 2004, we announced a new stock repurchase program, approved by the Board of Directors, pursuant to which we may repurchase up to an additional $1 billion of common stock. We had cash expenditures under all of our repurchase programs of $594.6 million, $520.7 million and $481.7 million in fiscal 2005, 2004 and 2003, respectively, funded primarily by cash generated from operations. The total common shares repurchased amounted to 25.1 million shares in fiscal 2005, 26.8 million shares in fiscal 2004 and 25.9 million shares in fiscal 2003. As of January 29, 2005, we had repurchased 17.7 million shares of our common stock at a cost of $406.6 million under the current $1 billion stock repurchase program. All shares repurchased have been retired except 75,000 shares and 87,638 shares purchased in fiscal 2004 and 2003, respectively, which are held in treasury.

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

2.299 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.

2.300 Table 2-42 shows the number of survey company balance sheets presenting other stockholders' equity accounts. Cumulative translation adjustments, unrealized losses/gains on certain investments, and a minimum pension liability adjustments are all *other comprehensive income* items which are included in Table 2-39 under "Accumulated Balances by Component Presented."

2.301 329 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. Four 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.

2.302 Examples showing the presentation of other stockholders' equity accounts follow.

2.303

TABLE 2-42: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Unearned compensation	229	194	169	151
Warrants	25	23	17	20
Guarantees of ESOP debt	24	26	32	32
Employee benefit trusts	23	18	20	20
Receivables from sale of stock	21	23	25	25

Unearned Compensation Relating to Stock Award Plans

2.304

ARVINMERITOR, INC. (SEP)

(In millions)	2004	2003
Shareowners' equity		
Common stock (2004, 71.0 shares issued and 69.5 outstanding; 2003, 71.0 shares issued and 68.5 outstanding)	$ 71	$ 71
Additional paid-in capital	569	561
Retained earnings	595	665
Treasury stock (2004, 1.5 shares; 2003, 2.5 shares)	(22)	(37)
Unearned compensation	(15)	(12)
Accumulated other comprehensive loss	(210)	(323)
Total shareowners' equity	$988	$925

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Shareowners' Equity

Common Stock (In Part)

The company has reserved approximately 15.6 million shares of Common Stock in connection with its Long-Term Incentives Plan (the LTIP), Directors Stock Plan, Incentive Compensation Plan, 1998 and 1988 Stock Benefit Plans, and Employee Stock Benefit Plan for grants of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, restricted share units and stock awards to key employees and directors. At September 30, 2004, there were 2.7 million shares available for future grants under these plans.

Restricted Stock

The company granted shares of restricted stock to certain employees in accordance with the LTIP and the Employee Stock Benefit Plan. The restricted stock is subject to continued employment by the employee and vests after three years. Restricted stock grants to officers and other employees are summarized as follows:

Grant Date	Grant Price	Number of Shares	Year Vested	Total Compensation	Recognition Period
August 2004[(3)]	$18.480	150,000	2007	$ 3 million	3 years
January 2004[(1)]	$23.800	561,700	2007	$13 million	3 years
November 2002[(1)]	$15.320	572,300	2005	$ 9 million	3 years
January 2002	$19.640	291,000	2005	$ 6 million	3 years
July 2001[(2)]	$18.850	681,832	2005	$13 million	3 years
January 2001	$11.375	296,900	2004	$ 3 million	3 years

(1) Includes shares of restricted stock awarded to the company's officers. Vesting of these shares is also subject to satisfaction of conditions related to the company's financial performance.

(2) In June 2001, the company commenced an offer to exchange certain outstanding stock options for restricted shares of the company's Common Stock. All outstanding stock options issued under the LTIP, the Employee Stock Benefit Plan, the 1998 and the 1988 Stock Benefit Plans (together, "the plans") that were held by active employees and had an exercise price of $22.25 or more per share (except options that expired in June 2001) were eligible for exchange. The exchange rate was based on a percentage of the present value of the options and the market price of the Common Stock on May 25, 2001 of $15.31 per share. In July 2001, 2,810,471 eligible options were cancelled and restricted shares of Common Stock were issued under the plans in exchange for those options. The restricted stock will vest early in January 2005, as certain performance measures have been achieved. Total compensation related to the exchange was expensed over a three-year recognition period assuming that the performance measures would be met.

(3) Includes shares of restricted stock awarded to the company's chief executive officer that vest over three years with 25,000 shares vesting in August 2005 and 2006 and 50,000 shares vesting in August 2007. Vesting of the remaining shares is subject to satisfaction of conditions related to the company's financial performance.

As the grant of restricted stock relates to future service, the total compensation expense is recorded as unearned compensation and is shown as a separate reduction of shareowners' equity. The unearned compensation is expensed over the vesting period. The company granted the restricted stock from treasury shares, and cash dividends on the restricted stock are reinvested in additional shares of common stock during the period. Total compensation expense recognized for restricted stock was $11 million, $9 million, and $6 million for fiscal years 2004, 2003 and 2002 respectively.

The company also grants restricted share units to non-employee members of the Board of Directors as annual grants under the 2004 Directors Stock Plan. The accounting for restricted share units is consistent with restricted stock grants. In fiscal 2004 the company granted 28,200 restricted share units to the Board of Directors.

2.305

UTSTARCOM, INC. (DEC)

(In thousands, except share data)	2004	2003
Stockholders' equity:		
Common stock: $0.00125 par value; authorized: 750,000,000 shares; issued and outstanding: 114,486,632 and 104,272,477 at December 31, 2004 and 2003, respectively	$ 144	$ 131
Additional paid-in capital	1,123,065	654,483
Deferred stock compensation	(6,102)	(7,761)
Retained earnings	243,452	243,058
Accumulated other comprehensive income	4,813	3,420
Total stockholders' equity	$1,365,372	$893,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Deferred Stock Compensation

In connection with the grant of certain stock options and restricted common stock to employees, non-employees and members of the Board of Directors and in connection with certain acquisitions, the Company recorded net deferred stock compensation of $0.3 million, and $8.7 million for the years ended 2003 and 2002, respectively, representing the fair value of restricted stock and the difference between the fair value of common stock and the option exercise price of options at the date of grant. The Company did not record any net deferred stock compensation for the year ended December 31, 2004. Deferred compensation is presented as a reduction of stockholders' equity, with amortization recorded over the vesting period of the related restricted stock and options. The Company recorded stock compensation expense of $0.5 million, $4.3 million, and $3.1 million for the year ended December 31, 2004, 2003, and 2002, respectively. At December 31, 2004, approximately $6.1 million remained to be amortized over the corresponding vesting period of each respective option or restricted share, generally four to five years.

In November 2001, the Company completed the purchase of Advanced Communication Devices Corporation ("ACD"). The Company adopted an incentive plan providing for the issuance of shares of common stock valued at $5 million to ACD employees who will continue to perform services for the Company.

Stock granted as part of incentive programs related to certain acquisitions, as well as the ACD acquisition noted above, vest over five years through 2007, with accelerated vesting upon the achievement of specified milestones.

Common Stock Warrants

2.306

MILACRON INC. (DEC)

(In millions, except par value)	2004	2003
Shareholders' equity (deficit)		
4% Cumulative Preferred shares	$ 6.0	$ 6.0
6% Series B Convertible Preferred Stock, $.01 par value (outstanding: 5 in 2004)	112.9	—
Common shares, $.01 par value in 2004 and $1.00 par value in 2003 (outstanding: 48.6 in 2004 and 34.8 in 2003)	.5	34.8
Capital in excess of par value	347.2	284.0
Contingent warrants	.5	—
Accumulated deficit	(312.7)	(241.7)
Accumulated other comprehensive loss	(104.0)	(106.7)
Total shareholders' equity (deficit)	$ 50.4	$ (23.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

On April 15, 2004, the $30.0 million of Series A Notes issued to Glencore Finance AG and Mizuho International plc on March 12, 2004, were converted into 15,000,000 common shares. The conversion involved the reissuance of 4,607,088 treasury shares and the issuance of 10,392,912 authorized but previously unissued common shares.

On June 9, 2004, the company's shareholders, among other things, approved the following resolutions:

- an increase in the number of authorized common shares from 50.0 million to 165.0 million;
- a decrease in the par value of each common share from $1.00 per share to $.01 per share;
- the issuance of a new series of Series B Preferred Stock that is convertible into common shares; and
- the issuance of contingent warrants which will be exercisable to purchase additional shares of the company's common stock under certain circumstances.

On June 10, 2004, the 15.0 million common shares into which the Series A Notes were converted and the $70.0 million of Series B Notes were exchanged for 500,000 shares of Series B Preferred Stock having a par value of $.01 per share and a liquidation preference of $200 per share. The 500,000 shares of Series B Preferred Stock are initially convertible into 50.0 million common shares of the company at a conversion price of $2.00 per share and have a cash dividend rate of 6% per year. Dividends may also be paid in additional shares of Series B Preferred Stock at a rate of 8% per year if the company is prohibited by the terms of its certificate of incorporation or its financing agreements from paying dividends in cash. Accrued and unpaid dividends on the Series B Preferred Stock must be paid prior to any dividend or distribution with respect to common stock and at the time of the redemption of any Series B Preferred Stock. The initial conversion price of $2.00 per share of common stock will be reset to $1.75 per share effective June 30, 2005 because a test based on the company's financial performance for 2004 was not satisfied. The test required the company to achieve EBITDA, as defined, of at least $50 million in 2004. Assuming the conversion price reset were to take place as of December 31, 2004, the total number of common shares outstanding on an as-converted basis would increase from approximately 98.6 million to approximately 105.7 million. To the extent not previously converted to common shares at the option of the holders or redeemed at the option of the company, the Series B Preferred Stock must be converted to common shares on the seventh anniversary of the date of its issuance. In the event of the liquidation of the company, the Series B Preferred Stock ranks junior to the company's 4% Cumulative Preferred Stock. Portions of the Series B Preferred Stock may be redeemed at the company's option beginning in 2008 at an initial redemption price of $224 per share that decreases to $216 per share by 2010.

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On June 10, 2004, the company also issued to holders of the Series B Preferred Stock contingent warrants to purchase an aggregate of one million shares of its common stock for $.01 per share. The contingent warrants are exercisable only if a test based on the company's financial performance for 2005 is not satisfied. The test requires the company to achieve EBITDA, as defined, of at least $60 million in 2005. If the test is not satisfied, the contingent warrants will be exercisable until March 25, 2011. If the test based on financial performance is satisfied, the contingent warrants will immediately terminate and will not be exercisable. The contingent warrants are included in shareholders' equity at an amount representative of their relative fair value in relation to the Series B Preferred Stock. If the contingent warrants do not become exercisable, their carrying value will be transferred to the carrying value of the Series B Preferred Stock. If they should be exercised, their carrying value will be included in the value of the newly issued common stock.

Guarantees of ESOP Debt

2.307

CVS CORPORATION (DEC)

(In millions, except shares and per share amounts)	2004	2003
Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	$ —	$ —
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 4,273,000 shares at January 1, 2005 and 4,541,000 shares at January 3, 2004	228.4	242.7
Common stock, par value $0.01: Authorized 1,000,000,000 shares; issued 414,276,000 shares at January 1, 2005 and 410,187,000 shares at January 3, 2004	4.2	4.1
Treasury stock, at cost: 13,317,000 shares at January 1, 2005 and 14,803,000 shares at January 3, 2004	(385.9)	(428.6)
Guaranteed ESOP obligation	(140.9)	(163.2)
Capital surplus	1,691.4	1,557.2
Retained earnings	5,645.5	4,846.5
Accumulated other comprehensive loss	(55.5)	(36.9)
Total shareholders' equity	$6,987.2	$6,021.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Borrowing and Credit Agreements

Following is a summary of the Company's borrowings as of the respective balance sheet dates:

(In millions)	2004	2003
Commercial paper	$ 885.6	$ —
5.5% senior notes due 2004	—	300.0
5.625% senior notes due 2006	300.0	300.0
3.875% senior notes due 2007	300.0	300.0
4.0% senior notes due 2009	650.0	—
4.875% senior notes due 2014	550.0	—
8.52% ESOP notes due 2008[1]	140.9	163.2
Mortgage notes payable	14.8	12.2
Capital lease obligations	0.8	0.9
	2,842.1	1,076.3
Less:		
Short-term debt	(885.6)	—
Current portion of long-term debt	(30.6)	(323.2)
	$1,925.9	$ 753.1

[1]See Note 6 for further information about the Company's ESOP Plan.

6. 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 $3575 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible

Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 2.314 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan.

As of January 1, 2005, 4.3 million shares of ESOP Preference Stock were outstanding, of which 2.8 million shares were allocated to participants and the remaining 1.5 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)	2004	2003	2002
ESOP expense recognized	$19.5	$30.1	$26.0
Dividends paid	16.6	17.7	18.3
Cash contributions	19.5	30.1	26.0
Interest payments	13.9	16.6	18.7
ESOP shares allocated	0.3	0.4	0.4

Employee Benefit Trust

2.308

AIRGAS, INC. (MAR)

(In thousands)	2004	2003
Stockholders' equity (Note 14)		
Preferred stock, no par value, 20,000 shares authorized, no shares issued or outstanding in 2004 and 2003	$ —	$ —
Common stock, par value $.01 per share, 200,000 shares authorized, 77,159 and 76,373 shares issued in 2004 and 2003, respectively	772	764
Capital in excess of par value	233,574	216,275
Retained earnings	481,677	413,286
Accumulated other comprehensive loss	(2,566)	(3,302)
Treasury stock, 1,470 and 547 common shares at cost in 2004 and 2003, respectively	(4,658)	(4,289)
Employee benefits trust, 2,241 and 3,421 common shares at cost in 2004 and 2003, respectively	(16,898)	(25,801)
Total stockholders' equity	$691,901	$596,933

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

k. Employee Benefits Trust

The Company established a trust (the "Employee Benefits Trust") to fund future obligations of the Company's employee benefit and compensation plans. Shares are purchased by the Employee Benefits Trust from the Company at fair market value and are reflected as a reduction of stockholders' equity in the Company's Consolidated Balance Sheets under the caption "Employee benefits trust." Shares are transferred from the Employee Benefits Trust to fund compensation and employee benefit obligations based on the original cost of the shares to the trust. The satisfaction of compensation and employee benefit plan obligations is based on the fair value of shares transferred. Differences between the original cost of the shares to the Employee Benefits Trust and the fair market value of shares transferred is charged or credited to capital in excess of par value.

14 (In Part): Stockholders' Equity

d. Shares in Employee Benefits Trust

In March 1999, the Company established a trust ("the Employee Benefits Trust") to fund certain future obligations of the Company's employee benefit and compensation plans. From inception through fiscal 2001, the Company, pursuant to a Common Stock Purchase Agreement, sold 7 million shares of common stock to the Employee Benefits Trust. The Company holds promissory notes from the Employee Benefits Trust in the amount of each purchase. Shares held by the Employee Benefits Trust serve as collateral for the promissory notes and are available to fund certain employee benefit plan obligations as the promissory notes are repaid. The shares held by the Employee Benefits Trust are not considered outstanding for earnings per share purposes until they are released from serving as collateral for the promissory notes. An independent third-party financial institution serves as the Trustee. The Trustee votes or tenders shares held by the trust in accordance with instructions received from the participants in the employee benefit and compensation plans funded by the trust. Approximately 1.2 million and 909 thousand shares were issued from the Employee Benefits Trust for employee benefit programs during fiscal 2004 and 2003, respectively. As of March 31, 2004, the Employee Benefits Trust held 2.2 million shares of the Company's common stock.

Receivables From Sale of Stock

2.309

IAC/INTERACTIVECORP (DEC)

(In thousands)	2004	2003
Shareholders' equity:		
Preferred stock $.01 par value; authorized 100,000,000 shares; 13,118,182 issued and outstanding	$ 131	$ 131
Common stock $.01 par value; authorized 1,600,000,000 shares; issued 696,983,299 and 679,006,913 shares, respectively, and outstanding 633,019,550 and 631,022,816 shares, respectively, including 308,652 and 452,035 of restricted stock, respectively	6,970	6,790
Class B convertible common stock $.01 par value; authorized 400,000,000 shares; issued and outstanding 64,629,996 shares	646	646
Additional paid-in capital	14,058,797	13,634,926
Retained earnings	2,428,760	2,276,952
Accumulated other comprehensive income	81,051	36,896
Treasury stock 63,963,749 and 47,984,097 shares, respectively	(1,966,053)	(1,535,758)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
Total shareholders' equity	$14,605,304	$14,415,585

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Shareholders' Equity

Note Receivable From Key Executive for Common Stock Issuance

In connection with the employment of Barry Diller as Chief Executive Officer in August 1995, the Company agreed to sell Mr. Diller 1,767,952 shares of IAC common stock ("Diller Shares") at $5.6563 per share for cash and a non-recourse promissory note in the approximate amount of $5.0 million, secured by approximately 1,060,000 shares of IAC Common Stock. The promissory note is due on the earlier of (i) the termination of Mr. Diller's employment, or (ii) September 5, 2007.

Stockholder Rights

2.310

PENTAIR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Shareholders' Equity

Purchase Rights

On December 10, 2004, our Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock. The dividend was payable upon the close of business on January 28, 2005 to the shareholders of record upon the close of business on January 28, 2005. Each Right entitles the registered holder to purchase one one-hundreth of a share of Series A Junior Participating Preferred Stock, at a price of $240.00 per one one-hundreth of a share, subject to adjustment. However, the Rights are not exercisable unless certain change in control events occur, such as a person acquiring or obtaining the right to acquire beneficial ownership of 15 percent or more of our outstanding common stock. The description and terms of the Rights are set forth in a Rights Agreement, dated December 10, 2004. The Rights will expire on January 28, 2015, unless the Rights are earlier redeemed or exchanged in accordance with the terms of the Rights Agreement. On January 28, 2005, the common share purchase rights issued pursuant to the Rights Agreement dated July 31, 1995 were redeemed in their entirety for an amount equal to $0.0025 per right.

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

	2004	2003	2002	2001
Income	255	242	242	259
Operations	251	261	250	230
Earnings	86	90	98	102
Other	8	7	10	9
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

3.03 Either a single-step form or a multi-step form is acceptable for preparing a statement of income. Table 3-2 shows that the survey companies presented a multi-step income statement more frequently than a single-step income statement.

3.04 Effective for fiscal years beginning after December 15, 1997, Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that comprehensive income and its components, as defined in the Statement, be reported in a financial statement. Comprehensive income and its components can be reported in an income statement, a separate statement of comprehensive income, or a statement of changes in stockholders' equity.

3.05 Examples of financial statement reporting comprehensive income and its components are presented in section 4.

3.06 Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

3.07

TABLE 3-2: INCOME STATEMENT FORMAT

	2004	2003	2002	2001
Single-Step Form				
Income tax shown as separate last item	110	133	156	153
Income tax listed among operating items	—	—	—	—
Multi-Step Form				
Costs deducted from sales to show gross margin	270	256	223	227
Costs and expenses deducted from sales to show operating income	220	211	221	220
Total Companies	**600**	**600**	**600**	**600**

Reclassification

3.08

THE DIXIE GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications

The Company included a subtotal for operating income in its Consolidated Statements of Operations in 2004 and, accordingly, reclassified certain items of income or expenses consistent with this presentation. These items and certain other amounts for 2003 and 2002 have been reclassified to conform to the 2004 presentation.

3.09

MOLEX INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 2004 classifications. The Company had historically recorded gains or losses on sale of property, plant and equipment and impairment and write-down of fixed assets, as well as equity income, in selling, general and administrative expenses. Effective June 30, 2004, the Company records gains or losses on fixed assets in cost of sales and equity income in other (income) expense.

REVENUES AND GAINS

3.10 Paragraphs 78 and 82 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, define revenues and gains.

> 78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
>
> 82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

3.11 Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue. Gains most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are segment disposals, gains shown after the caption for income taxes (Table 3-17), and extraordinary gains (Table 3-18).

3.12 Examples of revenues and gains follow.

3.13

TABLE 3-3: REVENUE CAPTION TITLE

	2004	2003	2002	2001
Net Sales				
Net sales	273	285	283	293
Net sales and operating revenues	9	7	11	8
Net sales combined with other items	2	5	3	4
Sales				
Sales	73	76	83	86
Sales and operating revenues	13	14	10	8
Sales combined with other items	6	6	3	4
Sales and services	4	2	7	14
Other Captions				
Revenue	219	204	198	180
Shipments, rentals, fees, etc	1	1	2	3
Total Companies	**600**	**600**	**600**	**600**

3.14

TABLE 3-4: GAINS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Interest	354	361	350	339
Sale of assets	198	199	187	182
Equity in earnings of investees	135	120	106	98
Liability accrual reduced	73	68	63	46
Foreign currency transactions	73	77	45	42
Change in fair value of derivatives	64	49	25	28
Dividends	63	53	66	58
Royalty, franchise and license fees	39	33	23	26
Litigation settlements	38	33	20	11
Insurance recoveries	19	17	16	16
Rentals	15	22	17	14
Debt extinguishment	9	13	3	N/C*

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

REVENUES

3.15

RAYTHEON COMPANY (DEC)

(In millions)	2004	2003	2002
Net sales	$20,245	$18,109	$16,760
Cost of sales	16,933	15,000	13,358
Administrative and selling expenses	1,433	1,306	1,170
Research and development expenses	491	487	449
Total operating expenses	18,857	16,793	14,977
Operating income	$ 1,388	$ 1,316	$ 1,783

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Revenue Recognition

Sales under long-term government contracts 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 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.

Revenue from aircraft sales are recognized at the time of physical delivery of the aircraft. Revenue from certain qualifying non-cancelable aircraft lease contracts are accounted for as sales-type leases. The present value of all payments, net of executory costs, are recorded as revenue, and the related costs of the aircraft are charged to cost of sales. Associated interest, using the interest method, is recorded over the term of the lease agreements. All other leases for aircraft are accounted for under the operating method wherein revenue is recorded as earned over the rental period. Service revenue is recognized ratably over contractual periods or as services are performed. Revenue from the sale of fractional shares is recognized over the expected life of the customer relationship.

Revenue from license fees are recognized over the expected life of the continued involvement with the customer.

3.16

SCIENTIFIC-ATLANTA, INC. (JUN)

(In thousands)	2004	2003	2002
Sales	$1,708,004	$1,450,353	$1,671,117
Costs and expenses			
Cost of sales	1,073,202	947,581	1,086,961
Sales and administrative	199,118	191,134	186,579
Research and development	149,233	146,596	148,652
Provision for doubtful accounts	33	703	83,904
Restructuring	1,325	17,446	28,164
Interest expense	778	866	869
Interest income	(16,785)	(22,731)	(22,335)
Other (income) expense, net	(7,233)	16,660	(112)
Total costs and expenses	1,399,671	1,298,255	1,512,682
Earnings before income taxes	$ 308,333	$ 152,098	$ 158,435

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Our principal sources of revenues are from sales of digital interactive subscriber systems, broadband transmission networks and content distribution networks. We recognize revenue when (1) there is persuasive evidence of an agreement with the customer, (2) product is shipped and title has passed, (3) the amount due from the customer is fixed and determinable, (4) collectibility is reasonably assured, and (5) we have no significant future performance obligation. At the time of the transaction, we assess whether the amount due from the customer is fixed and determinable and collection of the resulting receivable is reasonably assured. We assess whether the amount due from the customer is fixed and determinable based on the terms of the agreement with the customer, including, but not limited to, the payment terms associated with the transaction. We assess collection based on a number of factors, including past transaction history with the customer and credit-worthiness of the customer. If we determine that collection of an amount due is not reasonably assured, we defer recognition of revenue until collection becomes reasonably assured.

The standard terms and conditions under which we generally ship allow a customer the right to return product for refund only if the product does not conform to product specifications; the non-conforming product is identified by the customer; and the customer rejects the non-conforming product and notifies us within ten days of receipt. If an agreement contains a non-standard right of return, we defer recognizing revenue until the conditions of the agreement are met. From time to time, our agreements include acceptance clauses. If an agreement includes an acceptance clause, revenue is deferred until acceptance is deemed to have occurred.

Certain agreements also include multiple deliverables or elements for products and/or services. We recognize revenue from these agreements based on the relative fair value of the products and services. The determination of the fair value of the elements, which is based on a variety of factors, including the amount we charge other customers for the products or services, price lists or other relevant information, requires judgment by management. If an undelivered element is essential to the functionality of the delivered element or required under the terms of the contract to be delivered concurrently, we defer the revenue on the delivered element until that undelivered element is delivered.

We adopted EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," for agreements entered into in the first quarter of fiscal year 2004. Agreements with multiple deliverables are reviewed and the deliverables are separated into units of accounting under the provisions of EITF No. 00-21. The total consideration received is allocated over the relative fair value of the units of accounting. As indicated above, the determination of fair value requires judgment by management. Revenue is recognized as the elements are delivered, assuming all the other conditions for recognition of revenue discussed in the preceding paragraphs have been met.

For certain products where software is more than an incidental component of the hardware, we recognize software license revenue under SOP No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, "Software Revenue Recognition, with Respect to Certain Transactions." Software revenue recognition rules are very complex. Although we follow very specific and detailed guidelines in measuring revenue, the application of those guidelines requires judgment, including whether the software is more than an incidental component of the hardware and whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence of fair value exists for any undelivered elements.

3.17

THE WASHINGTON POST COMPANY (DEC)

(In thousands)	2004	2003	2002
Operating revenues			
Advertising	$1,346,870	$1,222,324	$1,221,180
Circulation and subscriber	741,810	706,248	675,136
Education	1,134,891	838,077	621,125
Other	76,533	72,262	66,762
	3,300,104	2,838,911	2,584,203
Operating costs and expenses			
Operating	1,717,059	1,549,262	1,369,955
Selling, general and administrative	835,367	792,292	664,095
Gain on sale of land	—	(41,747)	—
Depreciation of propertly, plant and equipment	175,338	173,848	171,908
Amortization of goodwill and other intangibles	9,334	1,436	655
	2,737,098	2,475,091	2,206,613
Income from operations	$ 563,006	$ 363,820	$ 377,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Revenue from media advertising is recognized, net of agency commissions, when the underlying advertisement is published or broadcast. Revenues from newspaper and magazine subscriptions and retail sales are recognized upon the later of delivery or cover date, with adequate provision made for anticipated sales returns. Cable subscriber revenue is recognized monthly as services are delivered. Education revenue is generally recognized ratably over the period during which educational services are delivered. At Kaplan's test preparation division, estimates of average student course length are developed for each course, and these estimates are evaluated on an ongoing basis and adjusted as necessary.

The Company bases its estimates for sales returns on historical experience and has not experienced significant fluctuations between estimated and actual return activity. Amounts received from customers in advance of revenue recognition are deferred as liabilities. Deferred revenue to be earned after one year is included in "Other Liabilities" in the Consolidated Balance Sheets.

GAINS

Interest

3.18

TRINITY INDUSTRIES, INC. (DEC)

(In millions)	2004	2003	2002
Revenues	$2,198.1	$1,432.8	$1,487.3
Operating costs:			
Cost of revenues	2,015.8	1,271.8	1,326.2
Selling, engineering and administrative expenses	168.2	147.6	150.4
	2,184.0	1,419.4	1,476.6
Operating profit	14.1	13.4	10.7
Other (income) expense:			
Interest income	(10.1)	(0.7)	(1.2)
Interest expense	42.8	34.9	36.3
Other, net	(3.5)	(6.5)	—
	29.2	27.7	35.1
Loss before income taxes	$ (15.1)	$ (14.3)	$ (24.4)

Sale of Assets

3.19

ALBERTO-CULVER COMPANY (SEP)

(In thousands)	2004	2003	2002
Net sales	$3,257,996	$2,891,417	$2,650,976
Cost of products sold	1,610,522	1,449,250	1,342,964
Gross profit	1,647,474	1,442,167	1,308,012
Advertising, marketing, selling and administrative expenses	1,325,360	1,168,376	1,073,584
Non-cash charge related to conversion to one class of common stock	85,602	—	—
Gain on sale of business (Note 8)	(10,147)	—	—
Operating earnings	246,659	273,791	234,428
Interest expense, net of interest income of $4,318 in 2004, $3,352 in 2003 and $3,377 in 2002	21,426	22,391	22,636
Charge related to redemption of senior notes	12,589	—	—
Earnings before provision for income taxes	$ 212,644	$ 251,400	$ 211,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Acquisitions and Sale of Business

In June, 2004, the company sold its Indola European professional hair care business. As a result of the sale, the company recorded a $10.1 million gain ($5.7 million after taxes) in the third quarter of fiscal 2004 which increased basic and diluted net earnings per share by 6 cents. In September, 2004, the company completed the liquidation of two foreign legal entities related to the Indola business and, as a result, recognized a tax benefit of $4.4 million in fiscal 2004 which increased basic and diluted earnings per share by 5 cents.

Equity in Earnings of Investee

3.20

OWENS-ILLINOIS, INC. (DEC)

(Dollars in millions)	2004	2003	2002
Revenues:			
Net sales	$6,128.4	$4,975.6	$4,621.2
Royalties and net technical assistance	21.1	17.5	17.4
Equity earnings	27.8	27.1	27.0
Interest	15.3	20.4	22.8
Other	70.8	25.2	42.8
	6,263.4	5,065.8	4,731.2
Costs and expenses:			
Manufacturing, shipping, and delivery	4,918.4	3,967.9	3,572.9
Research and development	25.4	29.9	21.1
Engineering	33.6	34.7	36.5
Selling and administrative	402.3	320.9	287.9
Interest	474.9	429.8	372.2
Other	198.5	720.6	503.1
	6,053.1	5,503.8	4,793.7
Earnings (loss) from continuing operations before items below	$ 210.3	$ (438.0)	$ (62.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular data dollars in millions)

5. Equity Investments

Summarized information pertaining to the Company's equity associates follows:

	2004	2003
At end of year:		
Equity in undistributed earnings:		
Foreign	$18.9	$ 95.4
Domestic	17.6	13.9
Total	$36.5	$109.3
Equity in cumulative translation adjustment	$ —	$ (38.2)

	2004	2003	2002
For the year:			
Equity in earnings:			
Foreign	$17.8	$17.2	$ 17.5
Domestic	10.0	9.9	9.5
Total	$27.8	$27.1	$ 27.0
Dividends received	$12.8	$31.1	$ 29.2

Liability Accruals Reduced

3.21

COOPER TIRE & RUBBER COMPANY (DEC)

(Dollar amounts in thousands)	2002	2003	2004
Net sales	$1,742,218	$1,850,853	$2,081,609
Cost of products sold	1,486,555	1,641,468	1,848,616
Gross profit	255,663	209,385	232,993
Selling, general and administrative	141,776	146,076	171,689
Adjustments to class action warranty	—	(3,900)	(11,273)
Restructuring	171	2,190	9,353
Operating profit	113,716	65,019	63,224
Interest expense	31,623	29,146	27,569
Other income—net	(1,542)	(1,332)	649
Income from continuing operations before income taxes	$ 83,635	$ 37,205	$ 35,006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

Significant Accounting Policies (In Part)

Warranties

The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on historical return rates, estimates of the eligible tire population, and the value of tires to be replaced. During the third quarters of 2003 and 2004, as a result of the review of the adequacy of its warranty liabilities which is performed each quarter, the Company reduced the enhanced warranty accrual established in 2001 as a result of the class action settlement by $3,900 and $11,273, respectively, and increased the normal warranty accrual by $3,311 in 2003. The reduction to the enhanced warranty liability is attributed to a reduction in the eligible population of tires subject to the enhanced warranty due to the passage of time and to lower than expected claims. The increase in the normal warranty liability in 2003 resulted from the revision of estimates made during the third quarter. The following table summarizes the activity in the Company's product warranty liabilities:

	2003	2004
Reserve at January 1	$ 23,231	$ 22,642
Additions	9,403	4,643
Enhanced warranty adjustment	(3,900)	(11,273)
Payments	(6,092)	(5,964)
Reserve at December 31	$ 22,642	$ 10,048

Foreign Currency Transactions

3.22

CSP INC. (SEP)

(Amounts in thousands)	2004	2003	2002
Sales:			
Product	$40,965	$21,871	$17,709
Services	11,859	10,644	10,402
Total sales	52,824	32,515	28,111
Cost of sales:			
Product	29,921	15,905	12,646
Services	7,800	7,400	7,132
Total cost of sales	37,721	23,305	19,778
Gross profit	15,103	9,210	8,333
Operating expenses:			
Engineering and development	2,946	3,543	3,737
Selling, general and administrative	10,542	7,992	7,922
Impairment charge on goodwill	—	365	—
Restructuring	—	318	394
Total operating expenses	13,488	12,218	12,053
Operating income (loss)	1,615	(3,008)	(3,720)
Other income (expense):			
Dividend income	5	4	8
Interest income	216	276	476
Interest expense	(105)	(79)	(37)
Foreign exchange gain	9	1,380	160
Other income (expense), net	11	(125)	(259)
Total other income, net	136	1,456	348
Income (loss) before income taxes	$ 1,751	$ (1,552)	$ (3,372)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at average rates in effect during the period. The resulting translation adjustment is reflected as accumulated other comprehensive income (loss), a separate component of shareholders' equity on the consolidated balance sheets. The Company recognized $9,000, $1,380,000 and $160,000 of foreign exchange transaction gains for years ended September 30, 2004, 2003 and 2002, respectively.

Change in Fair Value of Derivatives

3.23

LIBERTY MEDIA CORPORATION (DEC)

(Amounts in millions)	2004	2003	2002
Revenue:			
Net sales from electronic retailing	$ 5,687	$1,973	$ —
Communications and programming services	1,995	1,765	1,804
	7,682	3,738	1,804
Operating costs and expenses:			
Cost of sales—electronic retailing services	3,594	1,258	—
Operating	1,736	1,161	943
Selling, general and administrative ("SG&A")	815	519	458
Stock compensation—SG&A	101	(88)	(46)
Litigation settlement	(42)	—	—
Depreciation	247	195	164
Amortization	489	270	178
Impairment of long-lived assets	—	1,362	187
	6,940	4,677	1,884
Operating income (loss)	742	(939)	(80)
Other income (expense):			
Interest expense	(615)	(529)	(410)
Dividend and interest income	131	164	183
Share of earnings (losses) of affiliates, net	97	45	(89)
Realized and unrealized gains (losses) on derivative instruments, net (Note 7)	(1,284)	(662)	2,139
Gains (losses) on dispositions, net	1,406	1,125	(541)
Nontemporary declines in fair value of investments	(129)	(22)	(5,806)
Other, net	(24)	(55)	1
	(418)	66	(4,523)
Earnings (loss) from continuing operations before income taxes and minority interest	$ 324	$ (873)	$(4,603)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, narrow-band collars, put spread collars, written put and call options, bond swaps and interest rate swaps to manage fair value and cash flow risk associated with many of its investments and some of its variable rate debt. Liberty's derivative instruments are executed with counterparties who are well known major financial institutions. While Liberty believes these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect itself against credit risk associated with these counterparties the Company generally:

- executes its derivative instruments with several different counterparties, and
- executes equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for the Company's benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A– and/or Moody's rating of A3.

Due to the importance of these derivative instruments to its risk management strategy, Liberty actively monitors the creditworthiness of each of its counterparties. Based on its analysis, the Company currently considers nonperformance by any of its counterparties to be unlikely.

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("Statement 133"). All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

During 2002, the only derivative instruments designated as hedges were the Company's equity collars, which were designated as fair value hedges. Effective December 31, 2002, the Company elected to dedesignate its equity collars as fair value hedges. Such election had no effect on the Company's financial position at December 31, 2002 or its results of operations for the year ended December 31, 2002. Subsequent to December 31, 2002, changes in the fair value of the Company's AFS Securities that previously had been reported in earnings due to the designation of equity collars as fair value hedges are reported as a component of other comprehensive earnings (loss) on the Company's consolidated balance sheet. Changes in the fair value of the equity collars continue to be reported in earnings.

The fair value of derivative instruments is estimated using third party estimates or the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

7. Derivative Instruments

The Company's derivative instruments are summarized as follows:

(Amounts in millions)

Type of Derivative	2004	2003
Assets		
Equity collars	$ 2,016	$3,358
Put spread collars	291	331
Other	121	101
Total	2,428	3,790
Less current portion	(827)	(543)
	$ 1,601	$3,247
Liabilities		
Exchangeable debenture call option obligations	$ 1,102	$ 990
Put options	445	772
Equity collars	398	293
Borrowed shares	907	533
Other	139	22
Total	2,991	2,610
Less current portion	(1,179)	(854)
	$ 1,812	$1,756

Equity Collars, Narrow-Band Collars, Put Spread Collars and Put Options

The Company has entered into equity collars, narrow-band collars, put spread collars, written put and call options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price (the "Company Put Price") at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments. Narrow-band collars are equity collars in which the put and call prices are set so that the call option has a relatively higher fair value than the put option at the time of origination. In these cases the Company receives cash equal to the difference between such fair values.

Put spread collars provide the Company and the counterparty with put and call options similar to equity collars. In addition, put spread collars provide the counterparty with a put option that gives it the right to require the Company to purchase the underlying securities at a price that is lower than the Company Put Price. The inclusion of the secondary put option allows the Company to secure a higher call option price while maintaining net zero cost to enter into the collar. However, the inclusion of the secondary put exposes the Company to market risk if the underlying security trades below the put spread price.

Borrowed Shares

In connection with certain of its derivative instruments, Liberty periodically borrows shares of the underlying securities from a counterparty and delivers these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that are owned by Liberty have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at Liberty's option by delivering shares to the counterparty. The counterparty can terminate these arrangements upon the occurrence of certain events which limit the trading volume of the underlying security. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized gains or losses in other comprehensive earnings.

Exchangeable Debenture Call Option Obligations

Liberty has issued senior exchangeable debentures which are exchangeable for the value of a specified number of shares of Sprint common stock, Motorola common stock, Viacom Class B common stock or Time Warner common stock, as applicable. (See note 9 for a more complete description of the exchangeable debentures.)

Under Statement 133, the call option feature of the exchangeable debentures is reported separately from the long-term debt portion in the consolidated balance sheets at fair value. Changes in the fair value of the call option obligations are recognized as unrealized gains (losses) on derivative instruments in Liberty's consolidated statements of operations.

Realized and Unrealized Gains on Derivative Instruments

Realized and unrealized gains (losses) on derivative instruments during the years ended December 31, 2004, 2003 and 2002 are comprised of the following:

(Amounts in millions)	2004	2003	2002
Change in fair value of exchangeable debenture call option feature	$ (129)	$(158)	$ 784
Change in the fair value of equity collars	(941)	(483)	4,032
Change in the fair value of borrowed shares	(227)	(121)	—
Change in the fair value of put options	2	108	(445)
Change in the fair value of put spread collars	8	21	71
Change in fair value of hedged AFS Securities	—	—	(2,378)
Change in fair value of other derivatives[1]	3	(29)	75
Total realized and unrealized gains (losses), net	$(1,284)	$(662)	$2,139

[1] Comprised primarily of forward foreign exchange contracts and interest rate swap agreements.

Dividends

3.24

WINNEBAGO INDUSTRIES, INC. (AUG)

(In thousands)	2004	2003	2002
Net revenues	$1,114,154	$845,210	$825,269
Cost of goods sold	951,985	731,832	708,865
Gross profit	162,169	113,378	116,404
Operating expenses			
Selling	20,764	19,753	19,606
General and administrative	30,607	16,331	18,727
Total operating expenses	51,371	36,084	38,333
Operating income	110,798	77,294	78,071
Financial income	1,436	1,399	3,253
Pre-tax income	$ 112,234	$ 78,693	$ 81,324

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Financial Income and Expense

The following is a reconciliation of financial income (expense):

(Dollars in thousands)	2004	2003	2002
Interest income from investments and receivables	$ 945	$ 966	$ 711
Dividend income	579	502	2,726
(Loss) gains on foreign currency transactions	(8)	(69)	62
Interest expense	(80)	—	(246)
Total financial income	$1,436	$1,399	$3,253

Royalty, Franchise and License Fees

3.25

GENERAL ELECTRIC COMPANY (DEC)

(In millions)	2004	2003	2002
Revenues			
Sales of goods	$ 55,005	$ 49,963	$ 55,096
Sales of services	29,700	22,391	21,138
Other income (Note 2)	1,064	602	1,013
Earnings of GECS before accounting changes	—	—	—
GECS revenues from services	66,594	61,231	54,963
Total revenues	$152,363	$134,187	$132,210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Sales of Goods and Services (In Part)

We record broadcast and cable television advertising sales when advertisements are aired, net of provision for any viewer shortfalls (make goods). We record sales from theatrical distribution of films as the films are exhibited; sales of home videos, net of a return provision, when the videos are shipped and available for sale by retailers; fees from cable and satellite operators when services are provided, and licensing of film and television programming when we make the material available for airing.

Note 2 (In Part): GE Other Income

(In millions)	2004	2003	2002
Gain on dispositions of businesses, net	$ 464	$110	$ 506
Associated companies	191	118	(170)
Licensing and royalty income	145	135	103
Marketable securities and bank deposits	92	75	31
Other items	184	207	636
Total	$1,076	$645	$1,106

Litigation Settlements

3.26

SUN MICROSYSTEMS, INC. (JUN)

(In millions)	2004	2003	2002
Net revenues:			
Products	$ 7,355	$ 7,793	$ 9,093
Services	3,830	3,641	3,403
Total net revenues	11,185	11,434	12,496
Cost of sales:			
Cost of sales—products	4,290	4,342	5,506
Cost of sales—services	2,379	2,150	2,074
Total cost of sales	6,669	6,492	7,580
Gross margin	4,516	4,942	4,916
Operating expenses:			
Research and development	1,926	1,837	1,832
Selling, general and administrative	3,317	3,329	3,806
Restructuring charges	344	371	517
Impairment of goodwill and other intangible assets	49	2,125	6
Purchased in-process research and development	70	4	3
Total operating expenses	5,706	7,666	6,164
Operating loss	(1,190)	(2,724)	(1,248)
Loss on equity investments, net	(64)	(84)	(99)
Interest income	137	166	243
Interest expense	(37)	(43)	(58)
Gain (loss) on marketable debt securities	(6)	32	114
Settlement income	1,597	—	—
Income (loss) before income taxes	$ 437	$(2,653)	$(1,048)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Settlement Income

On March 8, 2002, we filed suit against Microsoft Corporation (Microsoft) in the United States District Court for the Northern District of California, pursuant to United States and State of California antitrust and other laws. In our complaint and as modified in subsequent filings, we alleged that Microsoft had engaged in illegal conduct, including efforts to acquire, maintain and expand a number of illegal monopolies; illegal tying arrangements; illegal exclusive dealings; copyright infringement; unreasonable restraints of trade; and unfair competition. In February 2003, Microsoft filed four counterclaims against Sun alleging unfair competition and breach of a settlement agreement regarding our Java technology. The presiding judge dismissed two of those counterclaims.

On April 1, 2004, Sun and Microsoft entered into several agreements including an agreement to settle all pending litigation between the two companies. Pursuant to the settlement agreement. Sun agreed to dismiss its litigation against Microsoft with prejudice and agreed to not initiate further steps to participate in the proceedings pending against Microsoft instituted by the Commission of the European Communities, and each party entered into a release of claims with respect to such matters. Microsoft also agreed to pay to Sun the amount of $700 million under this settlement agreement.

Pursuant to a patent covenant and stand-still agreement, the parties agreed not to sue each other for past damages for patent infringement with respect to the other party's products and technologies (the Covenant Not to Sue for Damages). Each year until 2014, Microsoft has the option of extending the Covenant Not to Sue for Damages to apply to the preceding year in exchange for an annual extension payment, so long as Microsoft has made all previous annual extension payments and so long as Microsoft has not sued Sun or authorized licensees of its commercial products for patent infringement prior to such time. At the end of the ten-year term, if Microsoft has made all such payments and not brought any such suits, then each party will automatically grant to the other party irrevocable, non-exclusive, perpetual licenses under all of its patents and patent applications existing at the end of such period in order to allow such other party to continue to commercialize its products shipping at the end of such period and any related successor products. In addition, the parties agreed, for a period of six months, not to bring any patent infringement suit (including a suit for injunctive relief) against the other party or authorized licensees of its commercial products relating to such other party's products. Microsoft also agreed to pay to Sun the amount of $900 million under this patent covenant and standstill agreement.

Pursuant to a technical collaboration agreement, each party agreed to provide the other party with access to aspects of its desktop and server-based technology for use in developing interoperable server products. Microsoft also agreed to pay to Sun the amount of $350 million as a prepaid nonrefundable royalty under this technical collaboration agreement.

Based on the agreements with Microsoft described above, we have recognized $1,597 million in settlement income during the fourth quarter of fiscal 2004 and deferred $350 million as other non-current obligations until the earlier of usage of the royalties by Microsoft or such time as all our obligations have been met. In addition, we have deferred $3 million in connection with our obligation to provide technical support under the terms of the technical collaboration agreement, which will be recognized to income over the 10 year term of the agreement.

Insurance Recoveries

3.27

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

(In thousands)	2004	2003	2002
Net sales	$2,453,281	$1,898,830	$1,639,899
Cost of goods sold	2,157,028	1,640,844	1,409,489
Gross profit	296,253	257,986	230,410
Selling, general and administrative expenses	201,335	177,824	158,299
Gain on insurance settlement	(1,391)		
Earnings from operations	96,309	80,162	72,111
Other expense (income):			
Interest expense	14,904	14,589	11,375
Interest income	(284)	(219)	(297)
Net gain on sale of real estate and interest in subsidiary	(1,370)		(1,082)
	13,250	14,370	9,996
Earnings before income taxes and minority interest	$ 83,059	$ 65,792	$ 62,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

P. Gain on Insurance Settlement

In April 2004, our plant in Thorndale, Ontario was destroyed by a fire. In accordance with FIN 30, *Accounting for Involuntary Conversions of Non-Monetary Assets to Monetary Assets*, we have written off the net book value of the destroyed inventory and property totaling $3.6 million. The insured value of the property exceeded its net book value by approximately $1.4 million, which was recorded as a gain on insurance settlement. As of December 25, 2004, we have collected $2.0 million of insurance proceeds. The remaining insurance receivable totals approximately $3.0 million and is recorded in other current assets.

Rentals

3.28

PITNEY BOWES INC. (DEC)

(Dollars in thousands)	2004	2003	2002
Revenue from:			
Sales	$1,462,967	$1,325,490	$1,309,342
Rentals	804,351	785,130	764,642
Business services	1,268,027	1,119,146	1,010,912
Support services	682,788	617,800	581,665
Core financing	640,184	616,414	600,894
Non-core financing	99,123	112,873	142,303
Total revenue	$4,957,440	$4,576,853	$4,409,758

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Rentals Revenue

Product Rentals

The company rents equipment to its customers, primarily postage meters, mailing equipment and shipping systems, under short-term rental agreements, generally for periods of three months to three years. The company invoices in advance the charges for equipment rental. The company defers the billed revenue and includes it initially in advance billings. Rental revenue is recognized on a straight-line basis over the term of the rental agreement.

Debt Extinguishment

3.29

LAM RESEARCH CORPORATION (JUN)

(In thousands)	2004	2003	2002
Total revenue	$935,946	$755,234	$ 943,114
Cost of goods sold	506,548	452,369	632,319
Cost of goods sold—restructuring charges (recoveries)	(1,651)	(964)	5,926
Cost of goods sold—patent settlement	—	—	38,780
Total cost of goods sold	504,897	451,405	677,025
Gross margin	431,049	303,829	266,089
Research and development	170,479	160,493	179,217
Selling, general and administrative	146,063	132,820	161,860
Restructuring charges, net	8,327	15,901	44,850
Total operating expenses	324,869	309,214	385,927
Operating income (loss)	106,180	(5,385)	(119,838)
Other income (expense):			
Interest income	9,915	15,804	31,703
Interest expense	(4,634)	(6,096)	(26,185)
Loss on equity derivative contracts in Company stock (EITF 00-19)	—	(16,407)	(8,236)
Net gain on settlement of swap and early retirement of 4% Notes	4,505	—	—
Other, net	(5,316)	(3,561)	(5,439)
	4,470	(10,260)	(8,157)
Income (loss) before income taxes	$110,650	$ (15,645)	$(127,995)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Long-Term Debt and Other Long-Term Liabilities

Long-term debt and other long-term liabilities consist of the following:

(In thousands)	2004	2003
4% Notes, interest payable semi-annually, principal due June 2006	$ —	$319,322
Restructuring, long-term portion	8,761	9,396
Patent settlement obligation	2,500	7,500
Other	793	1,002
	12,054	337,220
Less current portion	(2,500)	(5,011)
	$ 9,554	$332,209

During the quarter ended June 27, 2004, the Company repaid in full its 4% Notes, two years prior to maturity. The repayment of the 4% Notes resulted in a cash outlay of $303.0 million, which included a redemption premium of $3.0 million. Additionally, during the same quarter, the Company settled its swap which had been used to minimize the impact of interest rate exposure associated with its 4% Notes. This settlement resulted in an increase in cash of $10.9 million and, in addition, a transfer of $6 million from restricted cash to cash balances. As a result of swap settlement and repayment of the 4% Notes, the Company recorded a net gain of $4.5 million included in other income (expense), net. The $4.5 million consisted of a $10.9 million gain related to the swap less the $3.0 million redemption premium and write-off of $3.4 million of unamortized offering expenses associated with the 4% Notes.

Nonrecurring Gain

3.30

ADOLPH COORS COMPANY (DEC)

(In thousands)	2004	2003	2002
Sales—domestic and international	$ 5,819,727	$ 5,387,220	$ 4,956,947
Beer excise taxes	(1,513,911)	(1,387,107)	(1,180,625)
Net sales	4,305,816	4,000,113	3,776,322
Cost of goods sold	(2,741,694)	(2,586,783)	(2,414,530)
Gross profit	1,564,122	1,413,330	1,361,792
Other operating expenses			
Marketing, general and administrative	(1,223,219)	(1,105,959)	(1,057,240)
Special items, net (Note 7)	7,522	—	(6,267)
Total other operating expenses	(1,215,697)	(1,105,959)	(1,063,507)
Operating income	348,425	307,371	298,285
Other (expense) income			
Interest income	19,252	19,245	21,187
Interest expense	(72,441)	(81,195)	(70,919)
Other income, net	12,946	8,397	8,047
Total other expense	(40,243)	(53,553)	(41,685)
Income before income taxes	$ 308,182	$ 253,818	$ 256,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Special Items, Net

Cape Hill Brewery Sale

We sold our Cape Hill brewery property in May 2004 for £26 million (approximately $50 million at current exchange rates), with £6 million payable to us in 2004 and £20 million due in 2005, resulting in a one-time pretax gain of approximately £4 million ($7.5 million, which has been included in Special items on the accompanying Consolidated Statement of Income). We recorded an insignificant portion of the ultimate gain in the second quarter of 2004 under the installment method. We recorded the remaining gain on sale in the fourth quarter of 2004 after the remaining 2004 payment was received. The note receivable is included in other current receivables.

In 2002, we recorded charges related to the closing of our Cape Hill brewery, which were included as part of our purchase accounting upon the acquisition of CBL. Closure of the Cape Hill brewery commenced in July 2002 with the shut down of the kegging line. All production ceased in December 2002, at which time the assets, which were included in properties, were reclassified as held-for-sale. No impairment was taken on the assets, as their market value exceeded their carrying value. The payment of severance and other termination benefits started in July 2002 and was completed in December 2004. We reduced goodwill for unpaid restructuring liabilities upon full gain recognition in December 2004. The closure of the Cape Hill brewery was possible as a result of the cessation of the production contract for Interbrew UK Ltd., which was in existence upon acquisition of CBL. The annual savings from the Cape Hill closure, net of the loss of income from the Interbrew UK Ltd production contract, approximates £11 million (approximately $20 million at current exchange rates), reflected primarily in cost of goods sold and generally in line with expectations.

2002 Special Items

During 2002, we incurred net pretax special charges of $6.3 million. We recorded special charges of $2.7 million related to acquisition costs for CBL, including accounting, appraisal and legal fees. Offsetting these charges was a credit of $2.8 million related to cash payments received on a debt due to us from our former partner in a brewing business in South Korea. We also incurred net restructuring charges of $6.4 million primarily related to restructuring initiatives in our US operations and Golden Brewery business in an effort to consolidate and lower our future overhead costs. The restructuring charges consisted primarily of employee severance costs, which were paid during 2003. We estimate annual savings from the US/Golden restructuring programs approximate $10 million, reflected primarily in cost of goods sold.

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

	2004	2003	2002	2001
Single Amount				
Cost of sales	217	230	222	230
Cost of goods sold	91	95	89	93
Cost of products sold	73	74	73	83
Cost of revenues	33	38	33	35
Elements of cost	8	4	6	7
Other captions	107	102	110	99
	529	**543**	**533**	**547**
More than one amount	71	57	67	53
Total Companies	**600**	**600**	**600**	**600**

3.35

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Selling, general and administrative	345	344	340	340
Selling and administrative	109	110	114	117
General and/or administrative	101	103	99	98
Selling	38	37	43	40
Interest	549	543	556	565
Research, development, engineering, etc.	296	302	284	289
Advertising	215	207	191	184
Provision for doubtful accounts	82	54	64	66
Shipping	72	59	61	51
Taxes other than income taxes	21	19	20	26
Exploration, dry holes, abandonments	14	14	17	14
Maintenance and repairs	14	10	9	9

3.36

TABLE 3-7: LOSSES

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Intangible asset amortization	249	205	214	188
Restructuring of operations	227	219	263	285
Write-down of assets	194	205	214	232
Foreign currency transactions	101	82	91	84
Debt extinguishment	84	59	N/C*	N/C*
Sale of assets	71	80	96	71
Impairment of intangibles	62	72	97	74
Change in fair value of derivatives	60	55	42	48
Litigation settlements	60	47	43	38
Minority interests	58	54	62	55
Sale of receivables	36	32	31	31
Environmental cleanup	33	23	24	20
Equity in losses of investees	31	50	74	60
Purchased R&D	18	14	19	21
Merger costs	14	12	25	29
Royalties	13	9	20	11
Start-up costs	7	6	6	14
Distributions on preferred securities of subsidiary trust	6	4	6	4

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

EXPENSES

Cost of Goods Sold

3.37

PATHMARK STORES, INC. (JAN)

(In millions)	2005	2004	2003
Sales	$ 3,978.5	$ 3,991.3	$ 3,937.7
Cost of goods sold	(2,846.1)	(2,852.6)	(2,816.7)
Gross profit	$ 1,132.4	$ 1,138.7	$ 1,121.0

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Cost of Goods Sold

Cost of goods sold includes the costs of inventory sold and the related purchase and distribution costs. Vendor allowances and rebates are adjusted through a reduction in cost of goods sold when the required contractual terms are completed and when the inventory is sold. Cost of goods sold excludes depreciation and amortization shown separately in the consolidated statements of operations.

The Company adopted, as of the beginning of fiscal 2002, EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." In adopting EITF Issue No. 02-16, vendor payments related to advertising reimbursements are recorded as a reduction of cost of goods sold when both the required advertising is performed and the inventory is sold; prior to this change, these reimbursements were recorded as a reduction of advertising expense when the required advertising was performed. As a result, the Company recorded a charge, as of the first quarter of fiscal 2002, of $0.6 million, net of an income tax benefit of $0.4 million, for the cumulative effect of an accounting change.

3.38

SUPERVALU INC. (FEB)

(In thousands)	2004	2003	2002
Net sales	$20,209,679	$19,160,368	$20,293,040
Costs and expenses			
Cost of sales	17,372,429	16,567,397	17,704,197
Selling and administrative expenses	2,220,329	2,020,110	2,037,771
Restructure and other charges	15,523	2,918	46,300
Operating earnings	$ 601,398	$ 569,943	$ 504,772

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Cost of Sales

Cost of sales includes cost of inventory sold during the period, including purchasing and distribution costs and shipping and handling fees.

The company receives allowances and credits from suppliers for volume incentives, promotional allowances and to a lesser extent, new product introductions which are typically based on contractual arrangements covering a period of one year or less. Volume incentives and promotional allowances earned based on quantities purchased and new product allowances are recognized as a reduction to the cost of purchased inventory and recognized when the related inventory is sold. Promotional allowances that are based on the sell-through of products are recognized as a reduction of cost of sales when the products are sold for which the promotional allowances are given.

Advertising expenses are also included as a component of cost of sales and are expensed as incurred. Advertising expenses were $83.4 million, $83.9 million and $86.7 million for fiscal 2004, 2003 and 2002 respectively.

Research and Development

3.39

AMKOR TECHNOLOGY, INC. (DEC)

(In thousands)	2004	2003	2002
Net revenues	$1,901,279	$1,603,768	$1,406,178
Cost of revenues	1,533,447	1,267,302	1,310,563
Gross profit	367,832	336,466	95,615
Operating expenses:			
Selling, general and administrative	214,338	175,569	175,159
Research and development	36,707	30,167	35,918
Loss (gain) on disposal of fixed assets, net	(322)	(586)	2,496
Amortization of acquired intangibles	6,979	8,183	6,992
Special charges, net	920	125	291,970
Total operating expenses	258,622	213,458	512,535
Operating income (loss)	$ 109,210	$ 123,008	$ (416,920)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Research and Development Costs

Research and development expenses include costs directly attributable to the conduct of research and development programs primarily related to the development of new package designs and improving the efficiency and capabilities of our existing production process. Such costs include salaries, payroll taxes, employee benefit costs, materials, supplies, depreciation on and maintenance of research equipment, fees under licensing agreements, services provided by outside contractors, and the allocable portions of facility costs such as rent, utilities, insurance, repairs and maintenance, depreciation and general support services. All costs associated with research and development are expensed as incurred.

3.40

EASTMAN KODAK COMPANY (DEC)

(In millions)	2004	2003	2002
Net sales	$13,517	$12,909	$12,549
Cost of goods sold	9,548	8,734	8,022
Gross profit	3,969	4,175	4,527
Selling, general and administrative expenses	2,507	2,618	2,504
Research and development costs	854	776	757
Restructuring costs and other	695	479	98
(Losses) earnings from continuing operations before interest, other income (charges), net and income taxes	$ (87)	$ 302	$ 1,168

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Research and Development Costs

Research and development (R&D) costs, which include costs in connection with new product development, fundamental and exploratory research, process improvement, product use technology and product accreditation, are charged to operations in the period in which they are incurred. In connection with a business combination, the purchase price allocated to research and development projects that have not yet reached technological feasibility and for which no alternative future use exists is charged to operations in the period of acquisition. R&D costs were $854 million, $776 million and $757 million in 2004, 2003 and 2002, respectively.

Advertising

3.41

CDW CORPORATION (DEC)

(In thousands)	2004	2003	2002
Net sales	$5,737,774	$4,664,616	$4,264,579
Cost of sales	4,867,650	3,990,824	3,700,744
Gross profit	870,124	673,792	563,835
Selling and administrative expenses	386,563	325,205	261,611
Net advertising expense	90,802	64,129	4,046
Income from operations	$ 392,759	$ 284,458	$ 298,178

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. The following table summarizes advertising costs and cooperative reimbursements for the years ended December 31, 2004, 2003 and 2002, respectively (in thousands):

	2004	2003	2002
Gross advertising expenses	$99,791	$ 91,963	$ 89,079
Less cooperative reimbursements	(8,989)	(27,834)	(85,033)
Net advertising expenses	$90,802	$ 64,129	$ 4,046

Cooperative reimbursements are lower in 2004 and 2003 than in prior years as $91.3 and $60.9 million of vendor consideration which would have previously been classified as cooperative reimbursements were classified as a reduction of cost of sales due to the adoption of Emerging Issues Task Force ("EITF") 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.

Provision for Doubtful Accounts

3.42

HCA INC. (DEC)

(Dollars in millions)	2004	2003	2002
Revenues	$23,502	$21,808	$19,729
Salaries and benefits	9,419	8,682	7,952
Supplies	3,901	3,522	3,158
Other operating expenses	3,797	3,676	3,341
Provision for doubtful accounts	2,669	2,207	1,581
(Gains) losses on investments	(56)	(1)	2
Equity in earnings of affiliates	(194)	(199)	(206)
Depreciation and amortization	1,250	1,112	1,010
Interest expense	563	491	446
Government settlement and investigation related costs	—	(33)	661
Gains on sales of facilities	—	(85)	(6)
Impairment of investment securities	—	—	168
Impairment of long-lived assets	12	130	19
	21,361	19,502	18,126
Income before minority interests and income taxes	$ 2,141	$ 2,306	$ 1,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Accounts Receivable

HCA receives payments for services rendered from Federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. During the years ended December 31, 2004, 2003 and 2002, approximately 27%, 28% and 28%, respectively, of HCA's revenues related to patients participating in the Medicare program. HCA recognizes that revenues and receivables from government agencies are significant to its operations, but does not believe that there are significant credit risks associated with these government agencies. HCA does not believe that there are any other significant concentrations of revenues from any particular payer that would subject it to any significant credit risks in the collection of its accounts receivable.

Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectable are deducted from the allowance and subsequent recoveries are added. The amount of the provision for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and state governmental and private employer health care coverage and other collection indicators. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to "uninsured" amounts (including copayment and deductible amounts from patients who have health care coverage) due directly from patients. Accounts are written off when all reasonable internal and external collection efforts have been performed. HCA considers the return of an account from the primary external collection agency to be the culmination of its reasonable collection efforts and the timing basis for writing off the account balance. Writeoffs are based upon specific identification and the writeoff process requires a writeoff adjustment entry to the patient accounting system. Management relies on the results of detailed reviews of historical writeoffs and recoveries at facilities that represent a majority of HCA's revenues and accounts receivable (the "hindsight analysis") as a primary source of information to utilize in estimating the collectability of HCA's accounts receivable. The Company had previously performed the hindsight analysis on an annual basis. During the third quarter of 2003, the Company began performing a quarterly, rolling twelve-month hindsight analysis to enable it to react more quickly to trends affecting the collectability of the accounts receivable. During the fourth quarter of 2004, HCA refined its allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare copayments and deductibles and collection agency placements. At December 31, 2004, HCA's allowance for doubtful accounts represented approximately 78% of the $3.762 billion patient due accounts receivable balance, including accounts related to patients for which eligibility for Medicaid coverage was being evaluated ("pending Medicaid accounts"). The Company's allowance for doubtful accounts represented approximately 90% of the $3.254 billion patient due accounts receivable balance, excluding pending Medicaid accounts. Revenue days in accounts receivable were 48 days, 52 days and 52 days at December 31, 2004, 2003 and 2002, respectively. Adverse changes in general economic conditions, business office operations, payer mix, or trends in Federal or state governmental health care coverage could affect HCA's collection of accounts receivable, cash flows and results of operations.

Note 17 (In Part): Accrued Expenses and Allowance for Doubtful Accounts

A summary of activity in HCA's allowance for doubtful accounts follows (dollars in millions):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written Off, Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2002	$1,812	$1,581	$(1,348)	$2,045
Year ended December 31, 2003	2,045	2,207	(1,603)	2,649
Year ended December 31, 2004	2,649	2,669	(2,376)	2,942

Shipping

3.43

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	2004	2003	2002
Revenues	$5,157	$4,080	$3,515
Costs and expenses			
Costs and operating expenses	1,953	1,563	1,343
Selling, general and administrative expenses	337	365	308
Shipping and handling expenses	166	139	124
Depreciation and depletion	1,060	742	809
Accretion expense	30	25	—
Asset impairments	36	14	646
Loss (gain) associated with assets held for sale	29	(45)	176
Exploration, including exploratory dry holes and amortization of undeveloped leases	356	354	273
Taxes, other than income taxes	148	96	102
Provision for environmental remediation and restoration, net of reimbursements	86	60	53
Interest and debt expense	245	251	275
Total costs and expenses	4,446	3,564	4,109
	711	516	(594)
Other income (expense)	(40)	(57)	(31)
Income (loss) from continuing operations before income taxes	$ 671	$ 459	$ (625)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

Shipping and Handling Fees and Costs

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as revenue. Costs incurred by the company for shipping and handling, including transportation costs paid to third-party shippers to transport oil and gas production, are reported as an expense.

LOSSES

Intangible Asset Amortization

3.44

LSI LOGIC CORPORATION (DEC)

(In thousands)	2004	2003	2002
Revenues	$1,700,164	$1,693,070	$1,816,938
Cost of revenues	964,556	1,015,865	1,122,696
Additional excess inventory and related charges	—	—	45,526
Total cost of revenues	964,556	1,015,865	1,168,222
Gross profit	735,608	677,205	648,716
Research and development	421,516	432,695	457,351
Selling, general and administrative	243,498	234,156	230,202
Acquired in-process research and development	—	—	2,920
Restructuring of operations and other items, net	423,444	180,597	67,136
Amortization of non-cash deferred stock compensation	8,449	26,021	77,303
Amortization of intangibles	75,050	76,352	78,617
Loss from operations	$ (436,349)	$ (272,616)	$ (264,813)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Intangible Assets and Goodwill

Intangible assets by reportable segment are comprised of the following (in thousands):

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Semiconductor:				
Current technology	$318,402	$(239,973)	$319,364	$(195,837)
Trademarks	29,685	(20,496)	29,684	(15,981)
Customer base	8,788	(1,198)	—	—
Non-compete agreements	849	(195)	—	—
Existing purchase orders	200	(200)	—	—
Subtotal	357,924	(262,062)	349,048	(211,818)
Storage Systems:				
Current technology	50,039	(41,424)	50,039	(33,802)
Trademarks	3,750	(2,950)	3,750	(2,458)
Customer base	5,010	(3,420)	5,010	(2,540)
Supply agreement	7,247	(5,657)	7,247	(3,240)
Subtotal	66,046	(53,451)	66,046	(42,040)
Total	$423,970	$(315,513)	$415,094	$(253,858)

Amortization expense and the weighted average lives of intangible assets are shown in the table below:

(In thousands)	Weighted Average Lives (In Months)	2004	2003	2002
Current technology	79	$65,153	$67,742	$70,713
Trademarks	83	5,007	5,334	6,248
Customer base	68	2,078	856	836
Supply agreement	36	2,417	2,420	820
Non-compete agreements	46	195	—	—
Existing purchase orders	9	200	—	—
Total	78	$75,050	$76,352	$78,617

The estimated future amortization expense of intangible assets as of December 31, 2004 is as follows (in millions):

Fiscal Year	Amount
2005	$ 63
2006	31
2007	7
2008	4
2009	3
	$108

3.45

STRYKER CORPORATION (DEC)

(In millions)	2004	2003	2002
Net sales	$4,262.3	$3,625.3	$3,011.6
Cost of sales	1,510.1	1,312.4	1,111.2
Gross profit	2,752.2	2,312.9	1,900.4
Research, development and engineering expenses	211.0	180.2	141.4
Selling, general and administrative expenses	1,652.2	1,416.0	1,165.4
Intangibles amortization	47.8	45.4	28.9
Purchased in-process research and development	120.8	—	—
Restructuring and acquisition-related items	—	—	17.2
	2,031.8	1,641.6	1,352.9
Operating income	$ 720.4	$ 671.3	$ 547.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer relationships (which reflect expected continued customer patronage), trademarks and patents, which are amortized on a straight-line basis over 5 to 40 years (weighted average life of 14 years for other intangible assets).

Note 5 (In Part): Goodwill and Other Intangible Assets

The following is a summary of the Company's other intangible assets:

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
2004			
Amortized intangible assets:			
Developed technology	$248.8	$ 75.5	$173.3
Customer relationships	168.5	29.1	139.4
Patents	170.0	57.1	112.9
Trademarks	35.4	17.2	18.2
Other	34.9	21.8	13.1
	$657.6	$200.7	$456.9
2003			
Amortized intangible assets:			
Developed technology	$236.1	$ 60.0	$176.1
Customer relationships	161.5	22.5	139.0
Patents	161.4	39.5	121.9
Trademarks	34.2	13.0	21.2
Other	30.1	16.2	13.9
	$623.3	$151.2	$472.1

The estimated amortization expense for each of the five succeeding years is as follows:

2005	$38.1
2006	$36.9
2007	$34.7
2008	$34.6
2009	$33.8

In the fourth quarter of 2003, the Company recorded a $6.5 charge related to a trademark impairment resulting from a branding initiative adopted by the Company in that period. The branding initiative is intended to improve the Company's customers' and other stakeholders' overall awareness of Stryker's capabilities. The charge reduced the book value of a trademark within the Orthopaedic Implants segment to its fair value as determined by using a discounted cash flow model. The charge is included in intangibles amortization in the 2003 consolidated statement of earnings.

Restructuring of Operations

3.46

TEKTRONIX, INC. (MAY)

(In thousands)	2004	2003	2002
Net sales	$920,620	$791,048	$810,300
Cost of sales	397,577	385,305	409,676
Gross profit	523,043	405,743	400,624
Research and development expenses	130,386	101,137	112,389
Selling, general and administrative expenses	277,993	247,605	220,784
Equity in business venture's loss	—	2,893	3,971
Business realignment costs	22,765	34,551	26,992
Acquisition related (credits) costs, net	(51,025)	3,521	—
Gain on sale of the Video and Networking division	—	—	(818)
Loss on sale of fixed assets	1,134	108	5,808
Operating income	$141,790	$ 15,928	$ 31,498

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Business Realignment Costs

Business realignment costs represent actions to realign the Company's cost structure in response to significant events and primarily include restructuring actions and impairment of assets resulting from reduced business levels. Business realignment actions taken during fiscal year 2004 and in fiscal years 2002 and 2003 were intended to reduce the Company's worldwide cost structure across all major functions in response to the dramatic economic decline, which severely impacted markets into which the Company sells its products. Major operations impacted include manufacturing, engineering, sales, marketing and administrative functions. In addition to severance, the Company incurred other costs associated with restructuring its organization, which primarily represented facilities contracts and other exit costs associated with aligning the cost structure to appropriate levels. The Company anticipates that the actions taken have or will result in reduced operating costs in periods following the period in which the costs were incurred, primarily through reductions in labor costs. Management believes that the restructuring actions implemented in fiscal years 2002 and 2003 and during fiscal year 2004 have resulted in the costs savings anticipated for those actions.

Costs incurred during fiscal year 2004 primarily related to restructuring actions planned by the Company during fiscal year 2003, which were executed in fiscal year 2004. Many of the restructuring actions planned by the Company take significant time to execute, particularly if they are being conducted in countries outside the United States. The Company anticipates significantly lower levels of business realignment costs during fiscal year 2005, as most of the previously planned actions have been executed.

Business realignment costs of $22.8 million during fiscal year 2004 included $16.7 million of severance related costs for 274 employees mostly located in Europe and adjustments to estimates in prior years, $2.6 million for accumulated currency translation losses, net, related to the substantial closure of subsidiaries in Brazil, Australia and Denmark and a surplus facility in China, $1.9 million for contractual obligations for leased facilities in Europe and the United States, and $1.6 million for accelerated depreciation and write-down of assets in Europe and the United States. Expected future annual salary cost savings from actions taken during fiscal year 2004 to reduce employee headcount are estimated to be $14.7 million. At May 29, 2004, remaining liabilities of $5.3 million, $0.3 million and $0.2 million for employee severance and related benefits for actions taken in fiscal years 2004, 2003 and 2002, respectively, were maintained for 117, 3 and 2 employees, respectively.

The Company incurred $34.6 million of business realignment costs in fiscal year 2003 for employee severance, impairment of an intangible asset, a facility lease obligation and closure of other facilities. The Company incurred $26.5 million of severance and related costs for the termination of 524 employees resulting from actions to align the Company's cost structure with the reduced sales levels resulting from the recent economic conditions discussed above and adjustments to estimates in prior years. These severance costs included $11.2 million for 155 former employees of Tektronix Japan and $3.3 million for pension curtailment and settlement losses for the employees terminated in Japan. The closure of certain foreign and domestic operations resulted in credits totaling $1.3 million for accumulated translation gains and $0.3 million primarily for other asset write-downs and contractual obligations.

An impairment charge of $9.1 million was recognized for an intangible asset for acquired Bluetooth technology. The impairment of this intangible asset was due to the Company's decision to limit investment into the development of products that utilize this technology. During the first half of fiscal year 2003, the Company formed the opinion that the market potential for test and measurement products in the Bluetooth area did not warrant significant investment relative to other product investment opportunities available to the Company. The impairment was determined using the present value of estimated cash flows related to the asset.

The Company had previously accrued certain liabilities related to actions in fiscal year 2002 intended to reduce the operating costs associated with the design, production and sale of the optical transmission test products. As a result of the sale of certain assets related to these products to Digital Lightwave, Inc. ("DLI"), certain of these liabilities were expected to be mitigated and accordingly, the Company reversed $2.0 million of previously accrued expenses as a reduction to business realignment costs in the second quarter of fiscal year 2003. Due to significant deterioration of their financial condition, it appeared probable that DLI would not fulfill its lease obligation, which it assumed from the Company. The Company terminated the agreement with DLI and leased the facility to another sub-lessee. Accordingly, the Company accrued $2.0 million during the third and fourth quarters of fiscal year 2003, which represented the estimated shortfall under the current sublease agreement.

During fiscal year 2002, business realignment costs of $27.0 million included $20.9 million of severance related costs for 592 employees worldwide across all major functions, $3.9 million for contractual obligations, including $3.1 million for lease cancellations and $0.8 million for termination of a service contract in India, $0.9 million for write-off of leasehold improvements and other assets and $2.7 million of accumulated currency translation losses related to substantial closure of subsidiaries in Argentina and Australia, offset by a reversal of $1.4 million primarily for the favorable settlement of various office leases.

Activity for the above-described actions during fiscal year 2004 was as follows:

(In thousands)	Balance May 31, 2003	Costs Incurred	Cash Payments	Non-Cash Adjustments	Balance May 29, 2004
Fiscal year 2004 actions:					
Employee severance and related benefits	$ —	$17,351	$(12,016)	$ —	$5,335
Asset impairments	—	1,610	—	(1,610)	—
Contractual obligations	—	1,514	(1,105)	—	409
Accumulated currency translation loss, net	—	2,594	—	(2,594)	—
Total	—	23,069	(13,121)	(4,204)	5,744
Fiscal year 2003 actions:					
Employee severance and related benefits	5,394	(623)	(4,477)	—	294
Asset impairments	—	(53)	—	53	—
Contractual obligations	1,730	447	(1,085)	148	1,240
Total	7,124	(229)	(5,562)	201	1,534
Fiscal year 2002 actions:					
Employee severance and related benefits	494	172	(514)	—	152
Contractual obligations	434	(57)	(323)	—	54
Total	928	115	(837)	—	206
Other	—	(190)	(9)	199	—
Total of all actions	$8,052	$22,765	$(19,529)	$(3,804)	$7,484

Activity for the above-described actions during fiscal year 2003 was as follows:

(In thousands)	Balance May 25, 2002	Costs Incurred	Cash Payments	Non-Cash Adjustments	Balance May 31, 2003
Fiscal year 2003 actions:					
Employee severance and related benefits	$ —	$27,322	$(18,593)	$ (3,335)	$5,394
Asset impairments	—	9,341	—	(9,341)	—
Contractual obligations	—	2,212	(559)	77	1,730
Accumulated currency translation gain, net	—	(1,328)	—	1,328	—
Total	—	37,547	(19,152)	(11,271)	7,124
Fiscal year 2002 actions:					
Employee severance and related benefits	7,511	(417)	(6,600)	—	494
Contractual obligations	2,853	(2,130)	(788)	499	434
Total	10,364	(2,547)	(7,388)	499	928
Other	1,196	(449)	(808)	61	—
Total of all actions	$11,560	$34,551	$(27,348)	$(10,711)	$8,052

Activity for the above-described actions during fiscal year 2002 was as follows:

(In thousands)	Balance May 26, 2001	Costs Incurred	Cash Payments	Non-Cash Adjustments	Balance May 25, 2002
Fiscal year 2002 actions:					
Employee severance and related benefits	$ —	$20,917	$(13,406)	$ —	$ 7,511
Asset impairments	—	906	—	(906)	—
Contractual obligations	—	3,882	(1,029)	—	2,853
Accumulated currency translation loss, net	—	2,730	—	(2,730)	—
Total	—	28,435	(14,435)	(3,636)	10,364
Other	5,061	(1,443)	(2,422)	—	1,196
Total of all actions	$5,061	$26,992	$(16,857)	$(3,636)	$11,560

3.47

TELEFLEX INCORPORATED (DEC)

(In thousands)	2004	2003	2002
Revenues	$2,485,378	$2,152,855	$1,962,862
Materials, labor and other product costs	1,786,577	1,558,782	1,420,981
Gross profit	698,801	594,073	541,881
Selling, engineering and administrative expenses	494,430	392,956	336,853
Net gain from asset sales and net insurance proceeds	(2,733)	(3,068)	(10,085)
Restructuring costs	67,618	—	—
Income from continuing operations before interest, taxes and minority interest	$ 139,486	$ 204,185	$ 215,113

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Restructuring Costs

Restructuring costs, which include termination benefits, contract termination costs, asset impairments and other restructuring costs are recorded at estimated fair value. Key assumptions in calculating the restructuring costs include the anticipated sales price for discontinued operations, the terms that may be negotiated to exit certain contractual obligations, the realizable value of certain assets associated with discontinued product lines and the timing of employees leaving the company.

Note 5: Restructuring

During the fourth quarter of 2004, the Company announced and commenced implementation of a restructuring and divestiture program designed to improve future operating performance and position the Company for earnings growth in the years ahead. The planned actions include exiting or divesting of non core or low performing businesses, consolidating manufacturing operations and reorganizing administrative functions to enable businesses to share services.

Certain costs associated with the restructuring and divestiture program are not included in restructuring costs. All inventory adjustments that resulted from the restructuring and divestiture program and certain other costs associated with closing out businesses during the fourth quarter of 2004 are included in materials, labor and other product costs and totaled $17,040, of which $4,537, $0 and $12,503 was attributed to the Company's Commercial, Medical and Aerospace segments, respectively.

For 2004, the charges associated with the restructuring and divestiture program by segment that are included in restructuring costs were as follows:

	Commercial	Medical	Aerospace	Total
Termination benefits	$ 8,407	$ 6,625	$ 1,388	$16,420
Contract termination costs	775	—	2,300	3,075
Asset impairments	11,244	3,681	32,662	47,587
Other restructuring costs	390	146	—	536
	$20,816	$10,452	$36,350	$67,618

Termination benefits are comprised of severance-related payments for all employees terminated in connection with the restructuring and divestiture program. Contract termination costs relate primarily to the termination of leases in conjunction with the consolidation of manufacturing facilities. Asset impairments relate primarily to machinery and equipment associated with the consolidation of manufacturing facilities as well as goodwill associated with the Company's industrial gas turbine aftermarket services business. Other restructuring costs include expenses which are directly attributable to the restructuring and divestiture program.

As of December 26, 2004, the Company expects to incur the following future restructuring costs in its Commercial, Medical and Aerospace segments over the next 6 quarters:

	Commercial	Medical	Aerospace
Termination benefits	$1,500–2,500	$28,000–29,500	$ 750–1,250
Contract termination costs	0–100	4,500–5,500	750–1,250
Other restructuring costs	2,500–3,500	12,000–13,500	2,500–3,500
	$4,000–6,100	$44,500–48,500	$4,000–6,000

At December 26, 2004, the accrued liability associated with the restructuring and divestiture program consisted of the following:

	Balance at December 28, 2003	Subsequent Accruals	Non-Cash Settlements and Other Adjustments	Payments	Balance at December 26, 2004	Due Within 12 Months	Due After 12 Months
Termination benefits	$—	$16,420	$—	$(1,406)	$15,014	$15,014	$—
Contract termination costs	—	3,075	—	—	3,075	2,994	81
Other restructuring costs	—	536	—	(308)	228	228	—
	$—	$20,031	$—	$(1,714)	$18,317	$18,236	$81

Write-Down of Assets

3.48

NEWMONT MINING CORPORATION (DEC)

(In thousands)	2004	2003	2002
Revenues			
Sales—gold, net	$3,653,563	$3,082,936	$2,566,833
Sales—base metals, net	870,622	74,820	55,321
	4,524,185	3,157,756	2,622,154
Costs and expenses			
Costs applicable to sales (exclusive of depreciation, depletion and amortization shown separately below)			
Gold	1,935,863	1,655,989	1,580,347
Base metals	367,367	44,273	36,040
Depreciation, depletion and amortization	696,522	564,481	505,598
Exploration, research and development	192,409	115,238	88,886
General and administrative	115,848	130,292	115,252
Write-down of goodwill	51,750	—	—
Write-down of long-lived assets (Note 19)	39,265	35,260	3,652
Other	34,433	49,506	29,372
	3,433,457	2,595,039	2,359,147
Other income (expense)			
(Loss) gain on investments, net	(39,019)	83,166	47,086
Gain (loss) on derivative instruments, net	2,356	22,876	(39,805)
Gain on extinguishment of NYOL liabilities, net	—	220,537	—
Loss on extinguishment of debt	(222)	(33,832)	—
Royalty and dividend income	65,824	56,319	35,718
Interest income, foreign currency exchange and other income	76,948	102,182	39,885
Interest expense, net of capitalized interest of $13,058, $8,945 and $5,226, respectively	(97,610)	(88,579)	(129,565)
	8,277	362,669	(46,681)
Pre-tax income before minority interest, equity income and impairment of affiliates and cumulative effect of a change in accounting principle	$1,099,005	$ 925,386	$ 216,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Asset Impairment (In Part)

Long-Lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets, including goodwill, if any. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on quantities of recoverable minerals, expected gold and other commodity prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production and capital, all based on life-of-mine plans. The term "recoverable minerals" refers to the estimated amount of gold and other minerals that will be obtained from proven and probable reserves and all related exploration stage mineral interests (except for other mine-related exploration potential and greenfields exploration potential discussed separately below) after taking into account losses during ore processing and treatment. Estimates of recoverable minerals from such related exploration stage mineral interests will be risk adjusted based on management's relative confidence in such materials. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. With the exception of other mine-related exploration potential and greenfields exploration potential, all assets at an operating segment are considered together for purposes of estimating future cash flows. In the case of mineral interests associated with other mine-related exploration potential and greenfields exploration potential, cash flows and fair values are individually evaluated based primarily on recent exploration results and recent transactions involving sales of similar properties, if any. Assumptions underlying future cash flow estimates are subject to significant risks and uncertainties.

Note 19. Write-Down of Long-Lived Assets

Write-down of long-lived assets totaled $39.3 million, $35.3 million and $3.7 million during the years ended December 31, 2004, 2003 and 2002, respectively. The 2004 write-down included $16.3 million related to the long-lived assets at the Ovacik mine in Turkey. In August 2004, the Ovacik mine suspended operations as a result of a court decision ordering the suspension of operating permits pending completion of certain additional permitting requirements and the submission of an updated environmental impact assessment. On March 1, 2005, the Ovacik mine was sold to a subsidiary of Koza Davetiye, a Turkish conglomerate. The remainder of the write-down recorded during 2004 was primarily related to exploration tenements in Australia, long-lived asset impairment resulting from a reevaluation of future production and operating costs at Pajingo and processing facilities at Yanacocha. The 2003 write-down primarily related to a $28.4 million impairment charge at Golden Giant and the mobile fleet at Yanacocha. The impairment charge at Golden Giant resulted from a reevaluation of the life-of-mine plan which eliminated marginal stopes and reflected higher projected life-of-mine operating costs that led to reduced proven and probable reserves and increased life-of-mine operating costs. The 2002 write-down related to an impairment charge for exploration stage mineral interests and fixed assets at Kori Kollo.

Foreign Currency Transactions

3.49

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

(Dollars in millions)	2004	2003	2002
Net sales	$18,370.4	$15,122.1	$13,856.0
Cost of goods sold	14,709.2	12,499.0	11,306.9
Selling, administrative and general expense	2,833.1	2,374.2	2,202.4
Rationalizations	55.6	291.5	5.5
Interest expense	368.8	296.3	242.7
Other (income) and expense	8.2	263.4	56.8
Foreign currency exchange (gain) loss	23.4	40.7	(8.7)
Equity in (earnings) losses of affiliates	(8.4)	14.5	13.8
Minority interest in net income of subsidiaries	57.8	32.8	55.6
Income (loss) before income taxes	$ 322.7	$ (690.3)	$ (19.0)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Foreign Currency Translation

Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted-average exchange rate for each period for revenues, expenses, gains and losses. Where the local currency is the functional currency, translation adjustments are recorded as Accumulated Other Comprehensive Income (Loss). Where the U.S. dollar is the functional currency, translation adjustments are recorded in income.

Debt Extinguishment

3.50

CROWN HOLDINGS, INC. (DEC)

(In millions, except per share amounts)	2004	2003	2002
Net sales	$7,199	$6,630	$6,792
Cost of products sold, excluding depreciation and amortization	5,984	5,539	5,619
Depreciation and amortization	308	326	375
Gross profit	907	765	798
Selling and administrative expense	363	337	317
Provision for asbestos	35	44	30
Provision for restructuring	7	19	19
Provision for asset impairments and loss/gain on sale of assets	47	73	247
Loss/(gain) from early extinguishments of debt (Note R)	39	12	(28)
Interest expense	361	379	342
Interest income	(8)	(11)	(11)
Translation and exchange adjustments	(98)	(207)	27
Income/(loss) before income taxes, minority interests, equity earnings and cumulative effect of a change in accounting	$ 161	$ 119	$ (145)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Q (In Part): Debt

	2004	2003
Long-term debt		
Credit facility borrowings:		
U.S. dollar		
Other currencies		
Senior notes and debentures:		
Euro (€107) 6.00% due in 2004	$ —	$ 135
U.S. dollar 8.38% due 2005	—	61
U.S. dollar 7.00% due 2006	235	269
U.S. dollar 8.00% due 2023	200	200
U.S. dollar 7.38% due 2026	350	350
U.S. dollar 7.50% due 2096	150	150
Senior secured notes:		
U.S. dollar 9.50% second priority due 2011	1,085	1,085
Euro (€285) 10.25% second priority due 2011	386	358
Euro (€460) 6.25% first priority due 2011	623	—
U.S. dollar 10.88% third priority due 2013	725	725
First priority term loans:		
U.S. dollar at LIBOR plus 3.00%	—	428
Euro (€48) at LIBOR plus 4.25%	—	60
Other indebtedness in various currencies:		
Fixed rate with rates in 2004 from 1.0% to 5.0% due 2005 through 2015	6	5
Variable rate with average rates in 2004 from 2.8% to 15.5%, due 2005 through 2009	88	72
Capital lease obligations in various currencies	3	8
Unamortized discounts and fair value adjustments	(30)	(36)
Total long-term debt	3,821	3,870
Less: current maturities	(25)	(161)
Long-term debt, less current maturities	$3,796	$3,709

R (In Part): Debt Refinancings and Early Extinguishments

In December 2004, the Company purchased $33 aggregate principal of its 7.00% senior notes due December 2006 at a premium of 5.0% to principal. Also in December 2004, the Company retired the $40 remaining aggregate principal amount of its outstanding 8.38% senior notes due January 2005. In March 2004, the Company purchased $21 aggregate principal of its 8.38% senior notes due January 2005 at a premium of 4.5% to principal and €85 aggregate principal of its 6.00% notes due 2004 at a premium of 3.0% to principal. The Company recognized total charges of $6 in connection with these early extinguishments of debt.

In September 2004, the Company sold €350 of 6.25% first priority senior secured notes due in 2011 and entered into a new $625 senior secured credit facility. The new facility included a $400 revolving credit facility due in 2010, a $100 standby letter of credit facility due in 2010 and a $125 term loan facility due in 2011. In October 2004, the Company completed an add-on issuance of €110 of 6.25% first priority senior secured notes due in 2011, bringing the total of the issue to €460. The €350 of proceeds from the first issuance combined with the new $625 senior secured credit facility were used to refinance the existing credit and term loan facilities entered into in February, 2003, and to pay fees and expenses associated with the refinancing. The €110 of proceeds from the second issuance were used to repay the $125 term loan from September 2004 and to pay expenses associated with the issuance. Interest accrues at LIBOR plus 2.75% on the $100 committed under the standby letter of credit facility and there were $78 of outstanding letters of credit at December 31, 2004. In connection with the September 2004 refinancing, the Company recorded a charge of $33, as a loss from the early extinguishments of debt, to write-off unamortized fees from its previous credit facility.

In February 2003, the Company completed a refinancing and formed Crown Holdings, Inc. ("Crown") or ("the Company") as a new public holding company. The proceeds from the refinancing consisted of the sale of $1,085 of 9.5% second priority senior secured notes due in 2011, €285 of 10.25% second priority senior secured notes due in 2011, $725 of 10.875% third priority senior secured notes due in 2013, $504 of first priority term loans due in 2008 and a $550 first priority revolving credit facility due in 2006. The proceeds of $2,620 from the senior secured notes and term loans, and $198 of borrowings under the $550 credit facility, were used to repay the existing credit facility, to repurchase certain of the Company's outstanding unsecured notes prior to maturity, and to pay fees and expenses associated with the refinancing. The remaining proceeds of $344 were initially placed in restricted cash accounts and were subsequently used to repay other existing unsecured notes, including $149 prior to maturity. The Company also repurchased $86 of other unsecured notes prior to maturity. In connection with the repurchases, exchanges of debt for equity as described in Note O, and the write-off of unamortized financing fees and expenses from its previous credit facility, the Company recognized a loss of $12 from the early extinguishments of debt. During 2002, the Company recognized a gain of $28 on the exchanges of debt for equity as described in Note O.

The secured notes issued in 2003 and 2004 are senior obligations of Crown European Holdings ("CEH"), an indirect wholly-owned subsidiary, and are guaranteed on a senior basis by Crown, Crown Cork & Seal Company, Inc. ("Crown Cork"), substantially all other U.S. subsidiaries, and certain subsidiaries in the U.K., Canada, France, Germany, Mexico, Switzerland and Belgium. The holders of the notes have first, second and third priority liens on assets of certain of the guarantor subsidiaries and the stock of Crown Cork. CEH may redeem all or some of the first priority secured notes at any time, the second priority secured notes at any time prior to March 2007, and the third priority secured notes at any time prior to March 2008, by paying a make-whole premium. Thereafter, CEH may redeem some or all of the second and third priority secured notes at redemption prices initially representing a premium to principal equal to one-half of the applicable interest rate on the notes, declining annually thereafter. At any time prior to September 2007 for the first priority secured notes, and March 2006 for the second and third priority notes, CEH may redeem up to 35% of each of the secured notes with the net cash proceeds of certain equity offerings of capital stock of Crown that are used to capitalize CEH. CEH is also required to make an offer to purchase the secured notes upon the occurrence of certain change of control transactions or asset sales. The note indentures contain covenants that limit the ability of the Company and its subsidiaries to, among other things, incur additional debt, pay dividends or repurchase capital stock, create liens, and engage in sale and leaseback transactions.

The credit facility entered into in September 2004 also provides for a term loan, at the request of the Company, in an amount to be determined based on the Company's leverage ratio and credit rating. The credit facility also contains financial covenants including a fixed charge coverage ratio, a net leverage ratio, and a first lien leverage ratio.

Sale of Assets

3.51

HILTON HOTELS CORPORATION (DEC)

(In millions)	2002	2003	2004
Revenue			
Owned hotels	$2,100	$2,031	$2,062
Leased hotels	111	103	111
Management and franchise fees	329	337	384
Timeshare and other income	324	378	463
	2,864	2,849	3,020
Other revenue from managed and franchised properties	952	970	1,126
	3,816	3,819	4,146
Expenses			
Owned hotels	1,462	1,500	1,501
Leased hotels	101	96	101
Depreciation and amortization	348	334	330
Impairment loss and related costs	21	22	5
Other operating expenses	294	335	395
Corporate expense	66	81	85
	2,292	2,368	2,417
Other expenses from managed and franchised properties	952	970	1,120
	3,244	3,338	3,537
Operating income from unconsolidated affiliates	31	34	49
Operating income	603	515	658
Interest and dividend income	43	29	26
Interest expense	(328)	(295)	(274)
Net interest from unconsolidated affiliates and non-controlled interests	(19)	(20)	(26)
Net loss on asset dispositions and other	(14)	(6)	(5)
Loss from non-operating affiliates	—	—	(6)
Income before taxes and minority and non-controlled interests	$ 285	$ 223	$ 373

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Acquisitions and Dispositions

Asset Dispositions

In the 2004 first quarter, we sold the Doubletree La Posada Resort–Scottsdale in Arizona for total consideration of approximately $30 million, including approximately $6 million in cash and a note receivable for approximately $24 million. The note receivable is due to be repaid in the first quarter of 2005 and has been classified as a current asset on the December 31, 2004 consolidated balance sheet. No book gain or loss was realized on the sale; however, the transaction generated a capital gain for tax purposes, which enabled us to utilize existing capital loss tax carryforwards that had been fully reserved in prior periods. The transaction resulted in a net benefit to our income tax provision of approximately $2 million. We will continue to operate the hotel under a short-term management agreement that expires when the outstanding note is due.

In the second quarter of 2004, we sold the Doubletree Modesto and Doubletree Bakersfield, both in California. Total consideration from the sale of both hotels was approximately $40 million in cash. Gains of approximately $3 million on Modesto and approximately $2 million on Bakersfield were deferred due to our continuing involvement with each hotel and will be recognized over the life of the long-term management contract retained on each hotel. Both management contracts are for a term of ten years. The transaction also generated a capital gain for tax purposes, which enabled us to utilize existing capital loss tax carryforwards that had been fully reserved in prior periods. The transaction resulted in a net benefit to our income tax provision of approximately $4 million.

In the fourth quarter of 2004, we sold the Doubletree Jantzen Beach and the Doubletree Columbia River, both near Portland Oregon, for total consideration of approximately $29 million in cash. The sale resulted in a pre-tax loss of approximately $3 million. The $5 million pre-tax loss on asset dispositions and other in 2004 includes the $3 million loss on the sale of the two Doubletrees and a $5 million loss related to the write-off of values assigned to certain long-term management and franchise agreements that were terminated in 2004. These losses were partially offset by a $3 million gain from the sale of our investment in Travelweb.

In the 2003 first quarter, we sold four Homewood Suites by Hilton hotel properties in two separate transactions for approximately $40 million. We continue to operate three of the hotels under long-term management agreements and we have retained a long-term franchise contract on the fourth hotel. In the fourth quarter of 2003, an Embassy Suites hotel in which we held a 65% interest was sold, resulting in a pre-tax loss of approximately $4 million. We retained a long-term franchise contract on this hotel. Also in the 2003 fourth quarter, we sold certain marketable securities, which resulted in a pre-tax gain of approximately $2 million. In addition, we wrote off the value assigned to certain long-term management and franchise agreements that were terminated in 2003 totaling approximately $4 million. In the aggregate, these transactions resulted in a net $6 million pre-tax loss on asset dispositions and other in 2003.

In 2002, we entered into a $125 million facility with a wholly owned subsidiary of GE Capital for the sale of notes receivable originated by our timeshare business. During 2002, we completed two sales of notes receivable under the facility, totaling approximately $119 million. These transactions resulted in a gain of approximately $5 million. Also in 2002, we completed the sale of two owned, two leased and seven managed properties operating as Harrison Conference Centers for approximately $49 million. Under transition management and continuing services agreements, we provide certain services to the sold properties for terms ranging up to six years from the date of sale. We recorded a $16 million pre-tax book loss on the sale. However, the sale generated a capital gain for tax purposes, which enabled us to utilize existing capital loss tax carryforwards that had been fully reserved in prior periods. The transaction, including the impact of the reduction of the valuation allowance associated with the capital loss tax carryforwards, resulted in a $16 million book tax benefit. Thus, on an after-tax basis, the sale had no impact on reported net income. The total pre-tax loss on asset dispositions and other of $14 million in 2002 represents the $11 million net pre-tax loss on the aforementioned asset sales and a loss of approximately $3 million primarily as a result of writing off the value assigned to several long-term management and franchise agreements which were terminated during the year.

Impairment of Intangibles

3.52

WENDY'S INTERNATIONAL, INC. (DEC)

(In thousands)	2004	2003	2002
Revenues			
Retail sales	$2,935,899	$2,534,135	$2,187,438
Franchise revenues	699,539	614,777	542,823
Total revenues	3,635,438	3,148,912	2,730,261
Costs and expenses			
Cost of sales	1,920,302	1,634,562	1,383,665
Company restaurant operating costs	649,281	534,083	459,141
Operating costs	168,492	135,332	118,643
Depreciation of property and equipment	178,394	163,481	139,101
General and administrative expenses	283,721	261,070	241,438
Goodwill impairment	190,000	0	0
Other expense, net	18,644	1,942	6,905
Total costs and expenses	3,408,834	2,730,470	2,348,893
Operating income	$ 226,604	$ 418,442	$ 381,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Other Intangibles

Goodwill is the excess of the cost of an acquired entity over the fair value of acquired net assets. For purposes of testing goodwill for impairment, the Company has determined that its reporting units are Wendy's U.S., Wendy's Canada, Hortons Canada, Hortons U.S., Baja Fresh and Cafe Express. Each constitutes a business and has discrete financial information available which is regularly reviewed by management. The Company tests goodwill for impairment at least annually by comparing the fair value of each reporting unit, using discounted cash flows or market multiples based on earnings, to the carrying value to determine if there is an indication that a potential impairment may exist (see also Note 2 to the Consolidated Financial Statements).

Intangibles separate from goodwill are amortized on a straight-line method over periods of up to 30 years. Lives are generally related to legal or contractual lives, but in some cases must be estimated by management based on specific circumstances. The Company tests intangible assets for impairment whenever events or circumstances indicate that an impairment may exist.

Note 2 (In Part): Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended January 2, 2005 are as follows:

(In thousands)	Wendy's	Hortons	Developing Brands	Total
Balance as of December 28, 2003	$ 86,165	$ 0	$ 234,794	$ 320,959
Goodwill recorded in connection with acquisitions	3,826	25,450	19,817	49,093
Goodwill related to dispositions	(13,234)	0	0	(13,234)
Goodwill impairment	0	0	(190,000)	(190,000)
Translation adjustments	180	0	0	180
Balance as of January 2, 2005	$ 76,937	$25,450	$ 64,611	$ 166,998

The changes in the carrying amount of goodwill for the year ended December 28, 2003, are as follows:

(In thousands)	Wendy's	Hortons	Developing Brands	Total
Balance as of December 29, 2002	$42,897	$ 538	$228,890	$272,325
Goodwill recorded in connection with acquisitions	43,031	0	5,904	48,935
Goodwill related to dispositions	0	(538)	0	(538)
Translation adjustments	237	0	0	237
Balance as of December 28, 2003	$86,165	$ 0	$234,794	$320,959

Under SFAS No. 142, goodwill and other indefinite-lived intangibles must be tested for impairment annually (or in interim periods if events indicate possible impairment). In the fourth quarter of 2004, the Company tested goodwill for impairment and recorded an impairment charge of $190.0 million related to Baja Fresh, which is included in the Developing Brands segment. The Company, with the assistance of an independent third-party, determined the amount of the charge based on an estimate of the fair value of Baja Fresh, which was primarily based on comparative market data. The declining average same-store sales for Baja Fresh both in 2004 and 2003 were a significant consideration in the determination that the recorded value of Baja Fresh goodwill was impaired. The Company tested goodwill for impairment as of year-end 2003 and no impairment was indicated.

Change in Fair Value of Derivatives

3.53

DEVON ENERGY CORPORATION (DEC)

(In millions)	2004	2003	2002
Revenues:			
Oil sales	$2,202	$1,588	$ 909
Gas sales	4,732	3,897	2,133
NGL sales	554	407	275
Marketing and midstream revenues	1,701	1,460	999
Total revenues	9,189	7,352	4,316
Operating costs and expenses:			
Lease operating expenses	1,280	1,078	775
Production taxes	255	204	111
Marketing and midstream operating costs and expenses	1,339	1,174	808
Depreciation, depletion and amortization of oil and gas properties	2,141	1,668	1,106
Depreciation and amortization of non-oil and gas properties	149	125	105
Accretion of asset retirement obligation	44	36	—
General and administrative expenses	277	307	219
Expenses related to mergers	—	7	—
Reduction of carrying value of oil and gas properties	—	111	651
Total operating costs and expenses	5,485	4,710	3,775
Earnings from operations	3,704	2,642	541
Other income (expenses):			
Interest expense	(475)	(502)	(533)
Dividends on subsidiary's preferred stock	—	(2)	—
Effects of changes in foreign currency exchange rates	23	69	1
Change in fair value of derivative financial instruments	(62)	1	28
Impairment of ChevronTexaco Corporation common stock	—	—	(205)
Other income	103	37	34
Net other expenses	(411)	(397)	(675)
Earnings (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	$3,293	$2,245	$ (134)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Instruments

Devon enters into oil and gas financial instruments to manage its exposure to oil and gas price volatility. Devon has also entered into interest rate swaps to manage its exposure to interest rate volatility. The interest rate swaps mitigate either the effects of interest rate fluctuations on interest expense for variable-rate debt instruments, or the debt fair values for fixed-rate debt.

All derivatives are recognized as fair value of financial instruments on the consolidated balance sheets at their fair value. A substantial portion of Devon's derivatives consists of contracts that hedge the price of future oil and natural gas production. These derivative contracts are cash flow hedges that qualify for hedge accounting treatment. Therefore, while fair values of such hedging instruments must be estimated as of the end of each reporting period, the changes in the fair values attributable to the effective portion of these hedging instruments are not included in Devon's consolidated results of operations. Instead, the changes in fair value of the effective portion of these hedging instruments, net of tax, are recorded directly to accumulated other comprehensive income, a component of stockholders' equity, until the hedged oil or natural gas quantities are produced. The ineffective portion of these hedging instruments is included in consolidated results of operations.

To qualify for hedge accounting treatment, Devon designates its cash flow hedge instruments as such on the date the derivative contract is entered into or the date of a business combination which includes cash flow hedge instruments. Additionally, Devon documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Devon also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. If Devon fails to meet the requirements for using hedge accounting treatment or the hedged transaction is no longer likely to occur, the changes in fair value of these hedging instruments would not be recorded directly to equity but in the consolidated results of operations. During 2004, 2003 and 2002, there were no gains or losses reclassified into earnings as a result of the discontinuance of hedge accounting treatment for any of Devon's derivatives.

By using derivative instruments to hedge exposures to changes in commodity prices and interest rates, Devon exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with counterparties that Devon believes are minimal credit risks. It is Devon's policy to enter into derivative contracts only with investment grade rated counterparties deemed by management to be competent and competitive market makers.

Market risk is the change in the value of a derivative instrument that results from a change in commodity prices or interest rates. The market risk associated with commodity price and interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The oil and gas reference prices upon which the commodity hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon.

Devon does not hold or issue derivative instruments for speculative trading purposes. Devon's commodity costless price collars and price swaps have been designated as cash flow hedges. Changes in the fair value of these derivatives are reported on the balance sheet in accumulated other comprehensive income. These amounts are reclassified to oil and gas sales when the forecasted transaction takes place.

During 2004, 2003 and 2002, Devon recorded in its statements of operations a loss of $62 million, a gain of $1 million and a gain of $28 million, respectively, for the change in the fair value of derivative instruments that do not qualify for hedge accounting treatment, as well as the ineffectiveness of derivatives that do qualify as hedges.

As of December 31, 2004, $395 million of net deferred losses on derivative instruments accumulated in accumulated other comprehensive income are expected to be reclassified to oil and gas sales during the next 12 months assuming no change in the forward commodity prices from the December 31, 2004 forward prices. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying these derivatives' losses to earnings are primarily the production and sale of oil and natural gas which includes the production hedged under the various derivative instruments. Presently, the maximum term over which Devon has hedged exposures to the variability of cash flows for commodity price risk under its various derivative instruments is 12 months.

Litigation Settlement

3.54

BECTON, DICKINSON AND COMPANY (SEP)

(Thousands of dollars)	2004	2003	2002
Revenues	$4,934,745	$4,463,509	$3,960,359
Cost of products sold	2,500,362	2,296,637	2,049,475
Selling and administrative expense	1,311,467	1,181,403	1,007,696
Research and development expense	235,649	224,237	207,204
Special charges	—	—	21,508
Litigation settlement	100,000	—	—
Total operating costs and expenses	4,147,478	3,702,277	3,285,883
Operating income	$ 787,267	$ 761,232	$ 674,476

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Litigation Settlement

On July 2, 2004, the Company entered into an agreement to settle the lawsuit filed against it by Retractable Technologies, Inc ("RTI"). RTI alleged that the Company and other defendants conspired to exclude it from the market and to maintain the Company's market share by entering into long-term contracts in violation of state and Federal antitrust laws. RTI also asserted claims for business disparagement, common law conspiracy, and tortious interference with business relationships. The settlement was paid on July 6, 2004 and was in exchange for a general release of all claims (excluding certain patent matters) and a dismissal of the case with prejudice, which means this case cannot be re-filed. The Company recorded the related pretax charge of $100,000 ($63,000 after taxes and approximately 24 cents per diluted share) in the Company's results of operations in the third quarter of 2004.

Minority Interest

3.55

AIRGAS, INC. (MAR)

(In thousands)	2004	2003	2002
Net sales	$1,895,468	$1,786,964	$1,636,047
Costs and expenses			
Cost of products sold (excluding depreciation expense)	908,681	850,316	818,753
Selling, distribution and administrative expenses	731,827	698,228	619,316
Depreciation	82,567	73,482	64,785
Amortization	5,389	6,362	8,160
Special charges (recoveries), net	(776)	2,694	—
Total costs and expenses	1,727,688	1,631,082	1,511,014
Operating income	167,780	155,882	125,033
Interest expense, net	(42,357)	(46,375)	(47,013)
Discount on securitization of trade receivables	(3,264)	(3,326)	(4,846)
Other income (expense), net	625	(645)	1,382
Equity in earnings of unconsolidated affiliates	5,213	3,768	3,835
Minority interest (Note 16)	(291)	—	—
Earnings before income taxes and the cumulative effect of a change in accounting principle	$ 127,706	$ 109,304	$ 78,391

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting and Disclosure Changes

FASB Financial Interpretation No. 46 (In Part)

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 addresses 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 changes previous accounting practice by introducing the concept of a "Primary Beneficiary" and requires 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.

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Since June 1996, the Company has participated in a joint venture with National Welders Supply Company, Inc. ("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. The assets and liabilities of National Welders included goodwill of $56 million and debt of $62 million, which is non–recourse to the Company.

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 (In Part): Consolidated and Unconsolidated Affiliates

With the adoption of FIN 46R (Note 2), the Company's previously unconsolidated joint venture affiliate, National Welders, became a consolidated affiliate. The Company's other joint venture affiliates were not impacted by FIN 46R. The Company has participated in a joint venture with National Welders since June 1996. National Welders is a producer and distributor of industrial gases based in Charlotte, North Carolina. National Welders owns and operates 46 branch stores, two acetylene plants, a specialty gas lab, and three air separation plants that produce all of the joint venture's oxygen and nitrogen and over 50% of its argon requirements. The joint venture also distributes medical and specialty gases, processed 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. 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.

FIN 46R addresses the consolidation 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 46R changes previous accounting practice by introducing the concept of a "Primary Beneficiary" and requiring 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).

The Company determined that National Welders met the definition of a "Variable Interest Entity" under FIN 46R. 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 National Welders. As permitted by FIN 46R, the Company applied the interpretation prospectively from the date of adoption (prior periods not restated). Therefore, at December 31, 2003, the consolidation of National Welders only affected the balance sheet. There was no cumulative effect adjustment 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. 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. At March 31, 2004, National Welders' impact on the consolidated balance sheet is summarized below:

(In thousands)	Increase/(Decrease)
Current assets	$ 29,922
Non-current assets	109,750
Total assets	$139,672
Current liabilities	$ 21,217
Non-current liabilities	82,929
Minority interest	36,191
Common stockholder's equity	(665)
Total liabilities and stockholder's equity	$139,672

The assets and liabilities of National Welders at March 31, 2004 include $55.1 million of goodwill and $53.8 million of debt, which is non-recourse to the Company.

The Company recognized $4.4 million of "Equity in Earnings of Unconsolidated Affiliates" related to National Welders through the nine-months ended December 31, 2003. With the prospective adoption permitted by FIN 46R, the Company's proportionate share of the joint venture's operating results for the fourth fiscal quarter was not reflected as "Equity in Earnings of Unconsolidated Affiliates." Rather, the fourth fiscal quarter operating results of the joint venture 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. For both the fourth quarter and fiscal year 2004, National Welders contributed $39.2 million to sales, $3.4 million to operating income, $291 thousand of minority interest expense and $1.2 million in net earnings. The liabilities of the joint venture are non-recourse to the Company. Likewise, the cash flows in excess of a management fee paid by National Welders are not available to the Company. For the fourth quarter and fiscal year 2004, National Welders contributed net cash from operating activities of $9.8 million of which $249 thousand was paid to the Company.

Summarized below are pro forma results of National Welders that would have been reflected had the Company consolidated the joint venture as of April 1, 2001. Since the Company had previously recorded its proportionate share of the operating results of National Welders under the equity method of accounting, the consolidation of National Welders did not impact the Company's net earnings.

Pro forma results of National Welders:

(In thousands)	2004	2003	2002
Net sales	$147,604	$142,056	$132,148
Operating income	11,337	11,151	11,043
Minority interest expense	1,170	1,170	1,170
Net earnings available to common stockholder	$ 5,617	$ 2,684	$ 2,861

In fiscal 2004, National Welders recognized a non-recurring, after-tax insurance gain of $1.7 million.

Sale of Receivables

3.56

INGRAM MICRO INC. (DEC)

(Dollars in 000s)	2004	2003	2002
Net sales	$25,462,071	$22,613,017	$22,459,265
Cost of sales	24,060,029	21,389,529	21,227,627
Gross profit	1,402,042	1,223,488	1,231,638
Operating expenses:			
Selling, general and administrative	1,121,571	1,045,725	1,110,295
Reorganization costs	(2,896)	21,570	71,135
	1,118,675	1,067,295	1,181,430
Income from operations	283,367	156,193	50,208
Other expense (income):			
Interest income	(7,354)	(9,933)	(11,870)
Interest expense	37,509	33,447	32,702
Losses on sales of receivables	5,015	10,206	9,363
Net foreign exchange (gain) loss	(19,501)	3,695	8,736
Gain on sale of available-for-sale securities	—	—	(6,535)
Other	4,422	2,984	8,814
	20,091	40,399	41,210
Income before income taxes and cumulative effect of adoption of a new accounting standard	$ 263,276	$ 115,794	$ 8,998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Accounts Receivable

The Company has trade accounts receivable-based facilities in Europe, which provide up to approximately $238,000 of additional financing capacity, depending upon the level of trade accounts receivable eligible to be transferred or sold. At January 1, 2005 and January 3, 2004, the Company had no trade accounts receivable sold to and held by third parties under the European program. At January 1, 2005, the Company's actual aggregate capacity under this program, based on eligible accounts receivable outstanding, was approximately $208,885.

Effective July 29, 2004, the Company terminated its $700,000 revolving accounts receivable securitization program in the U.S., which was scheduled to expire in March 2005. On the same day, the Company entered into a new revolving accounts receivable-based financing program, which provides for up to $500,000 in borrowing capacity secured by substantially all U.S. based receivables. In connection with the former program, most of the Company's U.S. trade accounts receivable were transferred without recourse to a trust in exchange for a beneficial interest in the total pool of trade receivables. Sales of undivided interests to third parties under this program resulted in a reduction of total accounts receivable in the Company's consolidated balance sheet. The excess of the trade accounts receivable transferred over amounts sold to and held by third parties at any one point in time represented the Company's retained interest in the transferred accounts receivable and was shown in the Company's consolidated balance sheet as a separate caption under accounts receivable. Retained interests were carried at their fair value, estimated as the net realizable value, which considered the relatively short liquidation period and included an estimated provision for credit losses. At January 3, 2004, the amount of undivided interests sold to and held by third parties under the former securitization program totaled $60,000.

On July 26, 2004, the Company amended its existing accounts receivable-based facility in Canada of 150 million Canadian dollars (originally scheduled to expire in August 2004) and extended the maturity to August 31, 2008. At January 3, 2004, the Company had no trade accounts receivable sold to and held by third parties under the former program.

The Company is required to comply with certain financial covenants under some of its financing facilities, including minimum tangible net worth, restrictions on funded debt, interest coverage and trade accounts receivable portfolio performance covenants. The Company is also restricted in the amount of dividends it can pay as well as the amount of common stock that it can repurchase annually. At January 1, 2005, the Company was in compliance with all covenants or other requirements set forth in its accounts receivable financing programs discussed above.

Losses in the amount of $5,015, $10,206 and $9,363 for the fiscal years 2004, 2003 and 2002, respectively, related to the sale of trade accounts receivable under these facilities, or off-balance sheet debt, are included in other expenses in the Company's consolidated statement of income.

Environmental Clean-Up

3.57

SAUCONY, INC. (DEC)

(In thousands)	2004	2003	2002
Net sales	$166,152	$136,066	$133,196
Other revenue	524	379	303
Total revenue	166,676	136,445	133,499
Costs and expenses:			
Cost of sales	98,209	83,613	87,350
Selling expenses	21,695	18,574	17,790
General and administrative expenses	26,320	21,625	19,488
Environmental charge	2,275	—	—
Plant closing and other credits	—	(35)	(72)
Gain on sale of former manufacturing facility	—	(329)	—
Total costs and expenses	148,499	123,448	124,556
Operating income	$ 18,177	$ 12,997	$ 8,943

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Environmental Accrual

The Company accrues for costs associated with environmental obligations when such costs are probable and reasonably estimable in accordance with SOP 96-1, "Environmental Remediation Liabilities (Including Auditing Guidance)". Accruals to address estimated costs for environmental obligations generally are recognized no later than the date when the Company learns what cleanup measures, if any, are likely to occur to address the environmental conditions at issue. In accordance with SOP 96-1, included in such obligations are the estimated direct costs to investigate and address the conditions on Company property and the associated engineering, legal and consulting costs. Such accruals are adjusted as further information develops or circumstances change. Cost of future expenditures for environmental remediation obligations are not discounted to their present value.

Environmental Charge

In the year ended December 31, 2004, the Company recorded a charge of $2,275 to address environmental conditions at a Company owned distribution facility. The assessment of the liability and the associated costs is an estimate based upon currently available information after consultation with environmental engineers, consultants and attorneys assisting the Company in addressing these environmental issues. The following table summarizes the estimated expenses associated with our environmental charge:

Environmental response costs	$1,538
Engineering and risk assessment	375
Legal	352
Post-remedy monitoring	10
Total	$2,275

Actual costs to address the environmental conditions may change based on further investigations, based on the conclusions of regulatory authorities about information gathered in those investigations and due to the inherent uncertainties involved in estimating conditions in the environment and the costs of addressing such conditions. Estimated costs to address the environmental conditions range from $1,242 to $4,621. Costs of expenditures for environmental obligation are not discounted to their present value due to uncertainty of when the recorded amounts will be paid. At December 31, 2004, $2,275 was included as a short term liability in the accompanying consolidated balance sheet.

Equity in Losses of Investee

3.58

CABLEVISION SYSTEMS CORPORATION (DEC)

(Dollars in thousands)	2004	2003	2002
Revenues, net	$ 4,932,864	$4,177,148	$3,801,835
Operating expenses:			
Technical and operating (excluding depreciation and amortization (including impairments) and including costs of goods sold of $32,573 and $566 in 2004 and 2003)	2,414,624	1,956,157	1,738,637
Selling, general and administrative	1,331,735	1,126,911	924,460
Other operating income	(95,758)	(8,993)	—
Restructuring charges	151	10,725	74,091
Depreciation and amortization (including impairments)	1,341,549	1,060,651	873,648
	4,992,301	4,145,451	3,610,836
Operating income (loss)	(59,437)	31,697	190,999
Other income (expense):			
Interest expense	(721,322)	(615,676)	(506,480)
Interest income	10,541	12,540	22,439
Equity in net income (loss) of affiliates	(12,991)	429,732	(42,375)
Gain (loss) on sale of cable assets and programming and affiliate interests, net	2,232	(13,644)	—
Gain (loss) on investments, net	134,598	235,857	(881,394)
Write-off of deferred financing costs	(18,961)	(388)	(6,931)
Gain (loss) on derivative contracts, net	(165,305)	(208,323)	924,037
Loss on extinguishment of debt	(78,571)	—	(17,237)
Minority interests	(91,776)	(138,168)	(220,568)
Miscellaneous, net	294	3,624	(5,656)
	(941,261)	(294,446)	(734,165)
Loss from continuing operations before income taxes	$(1,000,698)	$ (262,749)	$ (543,166)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

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

Investments (In Part)

The Company's interests in less than majority-owned entities in which the Company has the ability to exercise significant influence over the operating and financial policies of the investee are accounted for under the equity method. Equity method investments are recorded at original cost and adjusted to recognize the Company's proportionate share of the investees' net income or losses, additional contributions made and distributions received. The Company would recognize a loss where there existed an other than temporary decline in the value of the investment.

Note 14 (In Part): Affiliate and Related Party Transactions

Equity Method Investments

The following table reflects the Company's effective ownership percentages and balances of equity method investments as of December 31, 2004 and 2003:

	Ownership Percentages		Investment Balances	
	2004	2003	2004	2003
Fox Sports Net New England[(a)]	30.0%	30.0%	$ 20,538	$ 13,980
National Advertising Partners[(a)]	50.0	50.0	6,760	4,768
Northcoast Communications[(b)]	49.9	49.9	—	—
PVI Virtual Media Services LLC[(c)]	60.0	60.0	—	6,699
Other	—	—	2	2
Investment in affiliates			27,300	25,449
National Sports Partners[(a)]	50.0	50.0	(59,913)	(40,182)
New York Metro, LLC[(d)]	—	27.0	—	(929)
Deficit investment in affiliates			(59,913)	(41,111)
Net investment in affiliates			$(32,613)	$(15,662)

(a) See Note 23 for a discussion of an agreement with subsidiaries of News Corporation entered into in February 2005 which will impact our ownership interest in these entities.
(b) Northcoast Communications was consolidated in the first quarter of 2004 pursuant to FIN 46R.
(c) PVI Virtual Media Services LLC was consolidated in the second quarter of 2004 pursuant to FIN 46R.
(d) In November 2004, the Company sold its interest in New York Metro, LLC and recorded a gain on sale of approximately $2,232.

The Company's share of the net income (loss) of these affiliates for the years ended December 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Fox Sports Net New England	$ 6,200	$ 3,215	$ 3,441
Fox Sports Net Bay Area[(a)]	—	6,142	9,115
Fox Sports Net Chicago[(a)]	—	5,026	7,160
National Sports Partners	(19,731)	(21,728)	(20,033)
National Advertising Partners	1,992	3,339	1,281
Northcoast Communications[(b)]	—	434,550	(36,029)
Rainbow DBS	—	—	(361)
PVI Virtual Media Services LLC[(b)]	(1,668)	(801)	—
New York Metro, LLC	216	(11)	(824)
Other	—	—	(6,125)
	$(12,991)	$429,732	$(42,375)

(a) Operating results of Fox Sports Net Bay Area and Fox Sports Net Chicago and Rainbow DBS have been consolidated with those of the Company from the date of acquisition.
(b) Northcoast Communications and PVI Virtual Media Services LLC were consolidated in the first and second quarter of 2004, respectively, pursuant to FIN 46R.

Purchased R&D

3.59

MEDTRONIC, INC. (APR)

(In millions)	2004	2003	2002
Net sales	$9,087.2	$7,665.2	$6,410.8
Costs and expenses:			
Cost of products sold	2,252.9	1,890.3	1,652.7
Research and development expense	851.5	749.4	646.3
Selling, general and administrative expense	2,801.4	2,371.9	1,962.8
Purchased in-process research and development	41.1	114.2	293.0
Special charges	(4.8)	2.5	290.8
Other expense, net	351.0	188.4	34.4
Interest (income)/expense	(2.8)	7.2	6.6
Total costs and expenses	6,290.3	5,323.9	4,886.6
Earnings before income taxes	$2,796.9	$2,341.3	$1,524.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

1 (In Part): Summary of Significant Accounting Policies

Purchased In-Process Research and Development (IPR&D)

When the Company acquires another entity, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets, and goodwill. The Company's policy defines IPR&D as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use.

Determining the portion of the purchase price allocated to IPR&D requires the Company to make significant estimates. The amount of the purchase price allocated to IPR&D is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of acquisition, in accordance with accepted valuation methods, and includes consideration of the assessed risk of the project not being developed to a stage of commercial feasibility.

3 (In Part): Special, IPR&D, and Other Charges

Special charges (such as certain litigation and restructuring charges), IPR&D, and other charges result from unique facts and circumstances that likely will not recur with similar materiality or impact on continuing operations. Special, IPR&D, and other charges taken during fiscal years 2004, 2003, and 2002 are as follows:

	2004	2003	2002
Special charges:			
Litigation	$ —	$(8.0)	$244.9
Asset write-downs	—	8.9	6.9
Restructuring and other related charges	—	16.1	29.2
Gain on equity investment	—	—	(36.8)
Foundation contribution	—	—	47.6
Changes in restructuring obligation estimates	(4.8)	(14.5)	(1.0)
Total special charges	(4.8)	2.5	290.8
IPR&D	41.1	114.2	293.0
Acquisition-related debt issuance costs	—	—	32.0
Total special, IPR&D, and other charges, pre-tax	36.3	116.7	615.8
Less tax impact	1.8	4.2	(122.6)
Total special, IPR&D, and other charges	$38.1	$120.9	$493.2

IPR&D

In the fourth quarter of fiscal year 2004, the Company entered into an agreement which provides an option to purchase substantially all the assets of a certain third-party entity. The Company holds a minority investment in this entity and as a result of this new agreement, has applied the equity method of accounting to this investment. At the date of the agreement, $17.2 of the amount paid for the investment was expensed for IPR&D related to cardiac surgery devices under development that had not yet reached technological feasibility.

During the third quarter of fiscal year 2004, the Company acquired Vertelink. At the date of the acquisition, $22.0 of the purchase price was expensed for IPR&D related to spinal fixation devices that had not yet reached technological feasibility and had no future alternative use. One of these devices, the KOBRA Fixation System, has since received FDA approval. The technology will be adapted for use in manufacturing spinal fixation devices that can achieve multi-level stabilization of the cervical, thoracic and lumbar spine. Prior to the acquisition, the Company did not have a comparable product under development. The acquisition of Vertelink is expected to further enhance the strategic initiative of the Company's Spinal business that focuses on MAST. In fiscal year 2004, the Company incurred $0.6 in costs and expects to incur costs totaling $1.6 in fiscal year 2005, $0.7 in fiscal year 2006, and $0.6 in fiscal year 2007 to bring these products to commercialization in the U.S. These costs are being funded by internally generated cash flows.

During the second quarter of fiscal year 2004, the Company acquired TVI. At the date of acquisition, $1.9 of the purchase price was expensed for IPR&D related to a cell and agent delivery device that had not yet reached technological feasibility and had no future alternative use. This device will be used to deliver cells, genes and drugs to specific tissues throughout the body. Prior to the acquisition, the Company did not have a comparable product under development. The acquisition of TVI is expected to complement the Company's current commitment to advance therapies and treatments by combining biologic and device therapies. In fiscal year 2004, the Company incurred $1.9 in costs and expects to incur costs totaling $3.5 in fiscal year 2005, $4.2 in fiscal year 2006, $4.0 in fiscal year 2007, $5.0 in fiscal year 2008, and $5.0 in fiscal year 2009 to bring this product to commercialization in the U.S. These costs are being funded by internally generated cash flows.

In the second quarter of fiscal year 2003, the Company acquired SDC. At the date of acquisition, $114.2 of the purchase price was expensed for IPR&D related to the BRYAN Cervical Disc System (BRYAN Disc), which had not yet reached technological feasibility in the U.S. and had no alternative future use. The BRYAN Disc is an artificial cervical disc featuring a shock-absorbing elastomer designed to replace and mimic the functionality of natural intervertebral discs removed from a patient during spinal surgery. Prior to this acquisition, the Company did not have a product with comparable technology under development, and the acquisition of SDC was expected to accelerate the Company's entry into the arena of artificial cervical discs. At the time of acquisition, SDC had received approval from the FDA for an investigational device exemption allowing SDC to proceed with human clinical studies, which must be completed before regulatory approval can be obtained in the U.S. In fiscal year 2004, the Company incurred $3.0 in costs and expects to incur $1.7 in fiscal year 2005 and $0.6 in fiscal year 2006 to bring this product to commercialization in the U.S. These costs are being funded by internally generated cash flows.

In the third quarter of fiscal year 2002, the Company acquired Endonetics. At the date of the acquisition, $32.7 of the purchase price was expensed for IPR&D related to the Gatekeeper Reflux Repair System (Gatekeeper), which had not yet reached technological feasibility and had no alternative future use. The Gatekeeper is a therapeutic medical device comprised of hydrogel prostheses that are implanted in the esophageal wall. After implantation, the hydrogel prostheses swell in size and create a mechanical barrier that prevents stomach acids from entering the esophagus. At the time of acquisition, the Company did not have a therapeutic product offering in the Gastroesophageal Reflux Disease (GERD) market. The Company believes the Gatekeeper device will distinguish itself in this market by its ease of use, ability to reduce treatment costs associated with extended drug therapies, and its less invasive approach to treating GERD. At the time of acquisition, the Gatekeeper device was in human clinical trials, which must be completed before regulatory approval can be obtained in the U.S. In fiscal year 2004, the Company incurred $1.0 in costs, and expects to incur $2.0 in fiscal year 2005 and $1.0 in fiscal year 2006 to bring this product to commercialization. These costs are being funded by internally generated cash flows.

In the second quarter of fiscal year 2002, the Company acquired MiniMed. At the date of the acquisition, $35.4 of the purchase price was expensed for IPR&D related to a disposable pump that had not yet reached technological feasibility and had no alternative future use. Disposable pumps are designed to be used as an infusion system that is attached to the body using an adhesive that delivers a pre-set constant rate of drug. At the time of the acquisition, MiniMed did not have a primary product offering in the insulin-using Type 2 diabetes market and believed that the disposable pump would distinguish itself in the Type 2 market by its convenience and ease of use. Subsequent to this acquisition, the Company performed an in-depth evaluation of the underlying technology related to this project. As a result of this evaluation, in the second quarter of fiscal year 2003, the Company discontinued its current project to bring the disposable pump to commercialization utilizing this technology. Instead, the Company is pursuing a disposable pump project under a different technology platform.

Also in the second quarter of fiscal year 2002, the Company acquired MRG. At the date of acquisition, $224.9 of the purchase price was expensed for IPR&D related to a long-term glucose sensor and an implantable glucose monitoring sensor that had not yet reached technological feasibility and had no alternative future use. At the time of the acquisition, MRG had no product offerings in the diabetes market; however, these projects were expected to enable MRG to enter this high potential implantable market. The long-term glucose sensor is designed to be used with an implantable pump to automatically maintain glucose levels by continuously monitoring and adjusting the rate of insulin infusion without the need for frequent intervention by the physician or patient. At the time of the acquisition, the long-term glucose sensor was in human clinical trials, which need to be completed before regulatory approval can be obtained in the U.S. The implantable glucose monitoring system is used by patients to monitor glucose levels. At the time of the acquisition, MRG had received approval from the FDA for the investigational device exemption allowing MRG to proceed with clinical studies. In fiscal year 2004, the Company incurred $6.0 in costs and expects to incur $6.0 to $9.0 of annual costs in fiscal years 2005 and 2006, to bring this product to commercialization. These costs are being funded by internally generated cash flows. The fair values assigned to the long-term glucose sensor and to the implantable glucose monitoring system were $219.7 and $4.4, respectively. Other minor product categories were valued at $0.8.

The Company is responsible for the valuation of IPR&D charges. The values assigned to IPR&D are based on valuations that have been prepared using methodologies and valuation techniques consistent with those used by independent appraisers. All values were determined by identifying research projects in areas for which technological feasibility had not been established. Additionally, the values were determined by estimating the revenue and expenses associated with a project's sales cycle and the amount of after-tax cash flows attributable to these projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

At the time of acquisition, the Company expects all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these products will actuary be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing and conducting clinical trials necessary to obtain regulatory approvals. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, and patent litigation. If commercial viability were not achieved, the Company would likely look to other alternatives to provide these therapies.

Merger Costs

3.60

PFIZER INC (DEC)

(Millions)	2004	2003	2002
Revenues	$52,516	$44,736	$32,294
Costs and expenses:			
Cost of sales	7,541	9,589	4,014
Selling, informational and administrative expenses	16,903	15,108	10,829
Research and development expenses	7,684	7,487	5,208
Amortization of intangible assets	3,364	2,187	22
Merger-related in-process research and development charges	1,071	5,052	—
Merger-related costs	1,193	1,058	630
Other (income)/deductions—net	753	1,009	(175)
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	$14,007	$ 3,246	$11,766

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

L (In Part): Merger-Related In-Process Research and Development Charges and Merger-Related Costs

Also, in connection with an acquisition of a business enterprise, we may review the associated operations and implement plans to restructure and integrate. For restructuring charges associated with a business acquisition that are identified in the first year after the acquisition date, the related costs are recorded as additional goodwill as they are considered to be liabilities assumed in the acquisition. All other restructuring charges, all integration costs and any charges related to our pre-existing businesses impacted by the acquisition are included in our results of operations as *Merger-related costs*.

3. Merger-Related Costs

We incurred the following merger-related costs primarily in connection with our acquisition of Pharmacia which was completed on April 16, 2003:

(Millions of dollars)	2004	2003	2002
Integration costs:			
Pharmacia	$ 475	$ 838	$ 98
Other[(a)]	21	33	345
Restructuring costs:			
Pharmacia	704	177	—
Other[(a)]	(7)	10	187
Total merger-related costs—expensed	$1,193	$1,058	$630
Total merger-related costs—capitalized	$ 581	$1,578	$ —

[(a)] Includes costs incurred in connection with our merger with Warner-Lambert Company (Warner-Lambert) which was completed on June 19, 2000.

A. Integration Costs

Integration costs represent external, incremental costs directly related to an acquisition, including expenditures for consulting and systems integration.

B. Restructuring Costs—Pharmacia

In connection with the acquisition of Pharmacia, Pfizer management approved plans throughout 2003 and 2004 to restructure the operations of both legacy Pfizer and legacy Pharmacia to eliminate duplicative facilities and reduce costs. The restructuring of our operations as a result of our acquisition of Pharmacia is expected to continue through at least 2005 and is expected to include severance, costs of vacating duplicative facilities, contract termination and other exit costs.

Total merger-related expenditures (income statement and balance sheet) expected to be incurred during 2003–2005 to achieve these synergies are about $6.0 billion, on a pre-tax basis. The remaining costs expected to be incurred are primarily associated with asset impairments, exist costs and employee terminations.

Restructuring Costs Associated With Legacy Pharmacia—Capitalized

We recorded, through April 15, 2004, restructuring costs associated primarily with employee terminations and exiting certain activities of legacy Pharmacia. These costs were recognized as liabilities assumed in the purchase business combination. Accordingly, the restructuring costs incurred in the first year after the acquisition are considered part of the purchase price of Pharmacia and have been recorded as an increase to goodwill. These restructuring costs also include costs associated with relocation. Restructuring costs after April 15, 2004 that are associated with legacy Pharmacia are charged to the results of operations. Changes to previous estimates of restructuring costs included as part of the purchase price allocation of Pharmacia are recorded as a reduction to goodwill or as an expense to operations, as appropriate. The components of the restructuring costs capitalized as a cost of the acquisition of Pharmacia follow:

	Costs Incurred			Utilization Through Dec. 31,	Reserve* Dec. 31,
(Millions of dollars)	2004	2003	Total	2004	2004
Employee termination costs	$246	$1,289	$1,535	$1,469	$ 66
Other	335	289	624	499	125
	$581	$1,578	$2,159	$1,968	$191

* Included in *Other current liabilities*

Through December 31, 2004, *Employee termination costs* represent the approved reduction of the legacy Pharmacia work force by 12,820 employees, mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 12,248 employees were terminated as of December 31, 2004. *Employee termination costs* include accrued severance benefits and costs associated with change-in-control provisions of certain Pharmacia employment contracts.

Restructuring Costs Associated With Legacy Pfizer and Legacy Pharmacia—Expensed

We have recorded restructuring costs associated with exiting certain activities of legacy Pfizer and legacy Pharmacia (from April 16, 2004), including severance, costs of vacating duplicative facilities, contract termination and other exit costs. These costs have been recorded as a charge to the results of operations and are included in *Merger-related costs*. The components of the restructuring costs associated with the acquisition of Pharmacia, which were expensed, follow:

	Provisions			Utilization Through Dec. 31,	Reserve* Dec. 31,
(Millions of dollars)	2004	2003	Total	2004	2004
Employee termination costs	$377	$140	$517	$5343	$174
Asset impairments	269	21	290	290	—
Other	58	16	74	30	44
	$704	$177	$881	$663	$218

* Included in *Other current liabilities*

Through December 31, 2004, *Employee termination costs* represent the approved reduction of the legacy Pfizer and legacy Pharmacia (from April 16, 2004) work force by 3,830 employees, mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 3,118 employees were terminated as of December 31, 2004. Employee termination costs include accrued severance benefits and costs associated with change-in-control provisions of certain Pharmacia employment contracts. Asset *impairments* primarily include charges to write-down property, plant and equipment. *Other* primarily includes costs to exit certain activities of legacy Pfizer and legacy Pharmacia (from April 16, 2004).

Nonrecurring/Unusual Losses

3.61

QUANTUM CORPORATION (MAR)

(In thousands)	2004	2003	2002
Product revenue	$677,259	$ 684,156	$ 820,359
Royalty revenue	131,125	186,653	209,316
Total revenue	808,384	870,809	1,029,675
Cost of revenue	556,725	603,646	652,070
Gross margin	251,659	267,163	377,605
Operating expenses:			
Research and development	103,471	111,926	111,451
Sales and marketing	97,844	100,454	110,733
General and administrative	54,824	71,266	113,541
Goodwill impairment	—	58,689	—
Special charges	15,212	24,200	72,856
Purchased in-process research and development	—	7,802	13,200
	271,351	374,337	421,781
Loss from operations	$ (19,692)	$(107,174)	$ (44,176)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Special Charges

In recent periods and over the past several years, Quantum recorded significant charges related to the realignment and restructuring of its business operations. These charges represented expenses incurred in connection with certain cost reduction programs that Quantum implemented and consisted of the cost of involuntary termination benefits, separation benefits, stock compensation charges, facilities charges and other costs of exiting activities or geographies.

In the fourth quarter of fiscal year 2003, Quantum became subject to SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*, which superseded EITF Issue No. 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period.

Prior to the fourth quarter of fiscal year 2003, Quantum accounted for special charges under the provisions of EITF Issue No 94-3. Under that pronouncement, Quantum recorded a liability in the period in which management approved a restructuring plan if:

- Management having the appropriate level of authority approved and committed Quantum to the specific exit plan;
- The period of time to complete the plan indicated that significant changes to the plan of termination were not likely; and
- The plan involving terminations identified the number of employees and positions to be terminated, and the benefit arrangement was communicated to affected employees.

Only costs resulting from an exit plan that were not associated with, or that did not benefit activities that were continued, were eligible for recognition as liabilities at the commitment date.

Note 6 (In Part): Special Charges

In fiscal years 2004, 2003, and 2002, we implemented plans to reduce costs in an effort to return to profitability. The restructuring charges that resulted from these cost reduction efforts relate to the following:

- Plans to outsource certain manufacturing
- Plans to consolidate most of the operations supporting our two business segments
- Other general expense reduction

These plans to reduce costs impacted both of our operating segments, DLT and Storage Systems, as well as corporate functions.

The following tables show the type of activity for the fiscal years 2004, 2003, and 2002.

(In thousands)	2004	2003	2002
By expense type			
Severance and benefits[1]	$ 8,967	$21,642	$36,198
Facilities	4,979	1,628	23,829
Demo equipment	—	—	6,764
Fixed assets	1,266	930	3,905
Other[1]	—	—	2,160
Total	$15,212	$24,200	$72,856
By cost reduction actions			
Outsource certain manufacturing and service functions	$ 6,800	$11,000	$28,000
Consolidate the operations supporting our two business segments	5,300	13,200	—
Strategic realignment and charges related to the disposition of the HDD Group	—	—	27,677
Other general expense reduction	3,112	—	17,179
Total	$15,212	$24,200	$72,856

[1] For fiscal year 2002, excludes $4.5 million related to the NAS business, which has been classified as discontinued operations.

Fiscal Year 2004

Outsource certain manufacturing and service:

- A charge of $2.1 million was recorded, which related to severance for 92 employees who were terminated as a result of outsourcing certain manufacturing to Jabil in Mexico from Quantum in the United Kingdom. An additional charge of $1.0 million was recorded to write-off fixed asset related to this plan.
- A charge of $0.9 million was recorded as a part of plan to outsource certain repair services to Jabil in Mexico from Quantum in Dundalk, Ireland. The charge primarily included severance benefits for 143 employees in Dundalk, Ireland.
- A charge of $0.8 million was recorded for severance benefits for 17 employees located at our facility in Colorado Springs, Colorado. These costs resulted from plans to reduce procurement activities following the outsourcing of certain manufacturing to Jabil and reductions following the integration of the Benchmark acquisition.
- Quantum incurred a non-cash charge of $2.0 million to write down its former manufacturing facility in Malaysia to the appraised value, following Quantum vacating this facility as part of the outsourcing of certain manufacturing to Jabil.

Consolidation of the operations supporting the two business segments:

- In November 2003, Quantum recorded charges of $5.3 million as a part of a plan to consolidate most of the operations supporting Quantum's DLT and Storage Systems business into one organization with consolidated operational functions and a combined sales force. The charge included severance benefits for 113 employees located in Colorado Springs, Colorado; Irvine, California; San Jose, California; and in the United Kingdom; and vacant facility charges.

Other general expense reductions:

- A net charge of $3.1 million was recorded primarily for vacant facilities in Boulder, Colorado and following the renegotiation and extension of an operating lease associated with vacant space (refer to Note 16 "Commitments and Contingencies").

Special Charge Activity and Future Payouts

The following table shows the activity and the estimated timing of future payouts for cost reduction plans:

(In thousands)	Severance and Benefits	Facilities	Demo Equipment	Fixed Assets	Other	Total
Balance at March 31, 2001	$ 6,852	$ 533	$ —	$ —	$ 696	$ 8,081
Provision	37,298	23,829	6,764	3,905	2,160	$ 73,956
Cash payments	(21,929)	(4,712)	—	—	(696)	$(27,337)
Non-cash charges	(16,784)	(1,015)	(6,764)	(3,905)	(905)	$(29,373)
Special charge reversal	(1,100)	—	—	—	—	$ (1,100)
Balance at March 31, 2002	4,337	18,635	—	—	1,255	$ 24,227
Provision	21,727	2,752	—	930	—	$ 25,409
Cash payments	(25,000)	(15,638)	—	—	(495)	$(41,133)
Non-cash charges	(109)	—	—	(930)	—	$ (1,039)
Special charge reversal	(85)	(1,124)	—	—	—	$ (1,209)
Balance March 31, 2003	870	4,625	—	—	760	$ 6,255
Provision	9,306	5,164	—	1,266	—	$ 15,736
Cash payments	(6,431)	(2,909)	—	—	(760)	$(10,100)
Non-cash charges	(789)	(2,048)	—	(1,266)	—	$ (4,103)
Special charge reversal	(339)	(185)	—	—	—	$ (524)
Balance March 31, 2004	$ 2,617	$ 4,647	$ —	$ —	$ —	$ 7,264
Estimated timing of future payouts:						
Fiscal year 2005	$ 2,330	$ 2,938	$ —	$ —	$ —	$ 5,268
Fiscal year 2006 to 2008	287	1,709	—	—	—	$ 1,996
	$ 2,617	$ 4,647	$ —	$ —	$ —	$ 7,264

The $7.3 million remaining special charge accrual at March 31, 2004 is comprised of obligations for severance and vacant facilities. The severance charges will be paid during fiscal year 2005 and the facilities charges relating to vacant facilities in Irvine, California; Colorado Spring, Colorado; and Boulder, Colorado will be paid over the lease term, which is through the third quarter of fiscal year 2008.

The above table excludes $1.2 million remaining special charge accrual related to NAS restructuring at March 31, 2004.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.62 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.

3.63 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 2004 to account for other postretirement benefits. Table 3-12 shows the asset allocations in 2004 of the 413 survey companies that disclosed the plan asset allocation of their defined benefit pension plan.

3.64 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.

3.65

TABLE 3-8: ASSUMED DISCOUNT RATE

%	2004	2003	2002	2001
4.5 or less	7	4	2	—
5	10	7	—	1
5.5	42	11	5	—
6	339	145	24	12
6.5	28	210	240	25
7	4	46	127	248
7.5	—	—	18	124
8	—	—	1	10
8.5	—	—	—	—
9	—	—	—	—
9.5	—	—	—	—
10	—	—	—	—
10.5	—	—	—	1
11 or greater	—	—	—	1
Not disclosed	4	7	5	6
Companies Disclosing Defined Benefit Plans	**434**	**430**	**422**	**428**

3.66

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	2004	2003	2002	2001
4.5 or less	334	339	317	248
5	44	40	52	84
5.5	7	9	11	17
6	7	7	8	12
6.5	—	1	1	1
7	—	—	—	—
7.5	1	2	3	2
8	1	—	—	1
8.5	3	1	—	—
9	—	—	—	2
9.5	—	—	1	—
10	1	1	—	—
10.5	—	—	—	1
11 or greater	—	—	1	—
Not disclosed	36	30	28	24
Companies Disclosing Defined Benefit Plans	**434**	**430**	**422**	**428**

3.67

TABLE 3-10: EXPECTED RATE OF RETURN

%	2004	2003	2002	2001
4.5 or less	8	4	—	1
5	2	2	1	—
5.5	2	1	—	—
6	8	3	2	1
6.5	9	7	2	2
7	21	18	11	6
7.5	29	25	16	9
8	89	80	61	39
8.5	172	157	89	45
9	70	101	140	135
9.5	7	12	65	98
10	1	3	18	63
10.5	—	1	7	14
11 or greater	—	1	—	5
Not disclosed	16	15	10	10
Companies Disclosing Defined Benefit Plans	**434**	**430**	**422**	**428**

3.68

TABLE 3-11: HEALTH CARE COST TREND RATE—2004

%	All Participants	Participants Under Age 65	Participants Age 65 and Over
5.5 or less	8	—	—
6–6.5	11	—	2
7–7.5	8	2	2
8–8.5	27	6	1
9–9.5	71	10	5
10–10.5	115	4	5
11–11.5	42	6	5
12–12.5	16	1	5
13–13.5	8	—	3
14 or greater	2	—	—
Fixed amount (not subject to escalation)	2	—	1
Companies Disclosing Rate	**310**	**29**	**29**

3.69

TABLE 3-12: PLAN ASSET ALLOCATION—2004

	Asset Category				
%	Equity	Debt	Real Estate	Cash & Equivalents	Other
81–100	15	2	—	—	—
61–80	282	6	—	1	—
41–60	96	28	—	1	—
21–40	11	301	1	4	3
1–20	3	67	123	93	152
None	6	9	289	314	258
Companies Disclosing Asset Allocation	**413**	**413**	**413**	**413**	**413**

Defined Benefit Plans

3.70

ARVINMERITOR, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

New Accounting Standards (In Part)

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by law. In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 106-2, "*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*." The FSP provides guidance on how to account for the federal subsidy. In the third quarter of fiscal 2004, the company amended its retiree medical plans (see Note 19). As a result, the adoption of FSP FAS 106-2 did not have a material impact on the company's results of operations or financial position.

In December 2003, the FASB revised Statement of Financial Accounting Standards (SFAS) No. 132, "*Employers' Disclosures about Pensions and Other Postretirement Benefits*." This statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS Nos. 87, 88 and 106. The revised SFAS requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The additional disclosure requirements are included in Notes 19 and 20.

19. Retirement Medical Plans

ArvinMeritor has retirement medical plans that cover the majority of its U.S. and certain non-U.S. employees and provide for medical payments to eligible employees and dependents upon retirement.

The company's retiree medical obligations are measured as of June 30. The following are the assumptions used in the measurement of the accumulated projected benefit obligation (APBO) and retiree medical expense:

	2004	2003	2002
Assumptions as of June 30			
Discount rate	6.25%	6.00%	7.25%
Health care cost trend rate			
(weighted average)	9.50%	8.00%	9.00%
Ultimate health care trend rate	5.00%	5.00%	5.00%
Year ultimate rate is reached	2011	2011	2011

Since the company measures its retiree medical obligations at June 30, the assumptions noted above are used to calculate the APBO as of June 30 of the current fiscal year and retiree medical expense for the subsequent fiscal year.

The discount rate is used to calculate the present value of the APBO. This rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits. The company has typically used the corporate AA/Aa bond rate for this assumption. The health care cost trend rate represents the company's expected annual rates of change in the cost of health care benefits. The trend rate noted above represents a forward projection of health care costs as of the measurement date. The company's projection for fiscal 2004 is an increase in health care costs of 9.5 percent.

The APBO as of the June 30 measurement date is summarized as follows (in millions):

APBO	2004	2003
Retirees	$395	$603
Employees eligible to retire	10	17
Employees not eligible to retire	38	62
Total	$443	$682

The following reconciles the change in the APBO and the amounts included in the consolidated balance sheet (in millions):

	2004	2003
APBO—beginning of year	$ 682	$ 576
Service cost	4	4
Interest cost	39	40
Plan amendments	(257)	—
Actuarial losses	37	127
Benefit payments	(62)	(65)
APBO—end of year	443	682
Items not yet recognized in the balance sheet		
Plan amendments	282	34
Actuarial (losses)/gains:		
Discount rate	(116)	(138)
Health care cost trend rate	(109)	(35)
Demographic and other	(207)	(245)
Retiree medical liability	$ 293	$ 298

In fiscal 2004, the company approved changes to certain retiree medical plans. These plan amendments and the related impact are reflected in the APBO as of September 30, 2004. Beginning in April 2005, salaried retirees and certain non-union hourly retirees under age 65 who now pay a portion of the cost for their coverage will contribute an increased share each year. The benefit currently provided by the company will be phased out by fiscal 2023. For retirees age 65 and older, the company will no longer provide supplemental healthcare benefits to Medicare-eligible retirees beginning in January 2006. The plan changes resulted in a reduction in the APBO of $257 million, which will be amortized as a reduction of retiree medical expense over the average remaining service life of approximately 12 years. The company recognized a curtailment gain in fiscal 2004 of $5 million related to these plan changes.

The demographic and other actuarial losses relate to earlier than expected retirements due to certain plant closings and restructuring actions. In accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," a portion of the actuarial losses is not subject to amortization. The actuarial losses that are subject to amortization are generally amortized over the average expected remaining service life, which is approximately 12 years. Union plan amendments are generally amortized over the contract period, or 3 years.

The retiree medical liability is included in the consolidated balance sheet as follows (in millions):

	2004	2003
Current—included in compensation and benefits	$ 65	$ 65
Long-term—included in retirement benefits	228	233
Retiree medical liability	$293	$298

The components of retiree medical expense are as follows (in millions):

	2004	2003	2002
Service cost	$ 4	$ 4	$ 4
Interest cost	39	40	38
Curtailment gain	(5)	—	—
Amortization of—			
Prior service cost	(4)	(5)	(3)
Actuarial gains and losses	23	17	12
Retiree medical expense	$57	$56	$51

A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects (in millions):

	2004	2003
Effect on total service and interest cost		
1% Increase	$ 4	$ 4
1% Decrease	(4)	(4)
Effect on APBO		
1% Increase	37	57
1% Decrease	(34)	(53)

The company expects future benefit payments as follows (in millions):

Fiscal 2005	$ 65
Fiscal 2006	66
Fiscal 2007	56
Fiscal 2008	44
Fiscal 2009	42
Fiscal 2010–2014	177

20. Retirement Pension Plans

ArvinMeritor sponsors defined benefit pension plans that cover most of its U.S. employees and certain non-U.S. employees. Pension benefits for salaried employees are based on years of credited service and compensation. Pension benefits for hourly employees are based on years of service and specified benefit amounts. The company's funding policy provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries.

Certain of the company's non-U.S. subsidiaries provide limited non-pension benefits to retirees in addition to government-sponsored programs. The cost of these programs is not significant to the company. Most retirees outside the U.S. are covered by government-sponsored and administered programs.

The company's pension obligations are measured as of June 30. The U.S. plans include a qualified and non-qualified pension plan. The non-U.S. plans include plans primarily in the United Kingdom, Canada and Germany.

The following are the assumptions used in the measurement of the projected benefit obligation (PBO) and net periodic pension expense:

	U.S. Plans		
	2004	2003	2002
Assumptions as of June 30			
Discount rate	6.25%	6.00%	7.25%
Assumed return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	3.75%	3.75%	4.25%

	Non-U.S. Plans		
	2004	2003	2002
Assumptions as of June 30			
Discount rate	5.50–6.25%	5.50–6.25%	6.00–6.75%
Assumed return on plan assets	8.00–8.50%	8.00–8.50%	8.00–8.50%
Rate of compensation increase	3.00–3.75%	3.00–3.50%	2.50–3.50%

Since the company measures its pension obligations at June 30, the assumptions noted above are used to calculate the APBO as of June 30 of the current fiscal year and net periodic pension expense for the subsequent fiscal year.

The discount rate is used to calculate the present value of the PBO. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments. The company has typically used a long-term corporate AA/Aa bond rate of return for this assumption.

The assumed return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for active management, where appropriate, is included in the rate of return assumption. The return assumption is reviewed annually.

The rate of compensation increase represents the long-term assumption for expected increases to salaries for pay-related plans.

The following table reconciles the change in the projected benefit obligation (PBO) and the change in plan assets (in millions):

	2004			2003		
June 30 Measurement Date	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
PBO—beginning of year	$ 818	$ 549	$1,367	$ 645	$ 431	$1,076
Service cost	26	15	41	23	12	35
Interest cost	49	32	81	47	27	74
Participant contributions	—	3	3	—	3	3
Amendments	3	4	7	8	4	12
Actuarial loss	17	13	30	136	40	176
Divestitures	2	—	2	(4)	11	7
Benefit payments	(42)	(27)	(69)	(37)	(21)	(58)
Foreign currency rate changes	—	48	48	—	42	42
PBO—end of year	873	637	1,510	818	549	1,367
Change in plan assets						
Fair value of assets—beginning of year	452	354	806	386	341	727
Actual return (loss) on plan assets	71	49	120	10	(17)	(7)
Employer contributions	123	27	150	93	20	113
Participant contributions	—	3	3	—	3	3
Benefit payments	(42)	(27)	(69)	(37)	(21)	(58)
Foreign currency rate changes	—	31	31	—	28	28
Fair value of assets—end of year	604	437	1,041	452	354	806
Unfunded status	$(269)	$(200)	$ (469)	$(366)	$(195)	$ (561)

In fiscal 2003, the increase in the PBO due to actuarial losses relates primarily to the reduction in the discount rate assumptions. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," a portion of the actuarial losses is not subject to amortization. The actuarial losses that are subject to amortization are generally amortized over the expected remaining service life, which ranges from 12 to 18 years, depending on the plan. In fiscal 2004, the financial markets improved compared to fiscal 2003 and 2002. The improved asset performance along with the increase in the discount rate and fiscal 2004 contributions improved the funded status of the U.S. plans at September 30, 2004. In accordance with SFAS 87, the company utilizes a market-related value of assets, which recognizes changes in the fair value of assets over a five-year period.

In recognition of the long-term nature of the liabilities of the pension plans, the company has targeted an asset allocation strategy that intends to promote asset growth while maintaining an acceptable level of risk over the long term. Asset-liability studies are performed periodically to validate the continued appropriateness of these asset allocation targets. The asset allocation for the U.S. plan is targeted at 70–75% equity securities, 25% debt securities, and 0–5% alternative assets. The target asset allocation ranges for the non-U.S. plans are 65–75% equity securities, 20–35% debt securities, and 0–5% real estate.

The investment strategies for the pension plans are designed to achieve an appropriate diversification of investments as well as safety and security of the principal invested. Assets invested are allocated to certain global sub-asset categories within prescribed ranges in order to promote international diversification across security type, issuer type, investment style, industry group, and economic sector. Assets of the plans are both actively and passively managed. Policy limits are placed on the percentage of plan assets that can be invested in a security of any single issuer and minimum credit quality standards are established for debt securities. ArvinMeritor securities comprised less than one-half percent of the value of our worldwide pension assets during 2004.

The weighted average asset allocation for the U.S. and non-U.S. pension plans are as follows:

	2004		2003	
	U.S.	Non-U.S.	U.S.	Total
Equity securities	73.9%	73.5%	73.6%	72.7%
Debt securities	24.6	22.9	24.5	23.7
Real estate	—	3.4	—	3.5
Other	1.5	0.2	1.9	0.1
Total	100.0%	100.0%	100.0%	100.0%

The following reconciles the funded status with the amount included in the consolidated balance sheet (in millions):

	2004			2003		
June 30 Measurement Date	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Unfunded status	$(269)	$(200)	$(469)	$(366)	$(195)	$(561)
Items not yet recognized in balance sheet:						
Actuarial losses	374	268	642	402	250	652
Prior service cost	7	13	20	8	12	20
Initial net asset	—	(4)	(4)	—	(4)	(4)
Net amount recognized	$ 112	$ 77	$ 189	$ 44	$ 63	$107

SFAS 87 requires a company to record a minimum liability that is at least equal to the unfunded accumulated benefit obligation. The additional minimum pension liability, net of a deferred tax asset, is charged to accumulated other comprehensive loss. At September 30, 2004 and 2003, the company's additional minimum pension liability was $293 million and $294 million, respectively.

Amounts included in the consolidated balance sheet at September 30 were comprised of the following (in millions):

	2004			2003		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Prepaid pension asset	$ —	$ 23	$ 23	$ —	$ 32	$ 32
Pension liability	(198)	(122)	(320)	(282)	(130)	(412)
Deferred tax asset on minimum pension liability	117	49	166	122	46	168
Accumulated other comprehensive loss	187	106	293	197	97	294
Intangible asset and other	6	16	22	7	13	20
Minority interest liability	—	5	5	—	5	5
Net amount recognized	$ 112	$ 77	$ 189	$ 44	$ 63	$ 107

The pension liability is included in Retirement Benefits in the consolidated balance sheet as follows (in millions):

	2004	2003
Pension liability	$320	$412
Retiree medical liability—long term (see Note 19)	228	233
Other	35	32
Retirement benefits	$583	$677

In accordance with SFAS No. 132 "Employer's Disclosures about Pensions and Other Postretirement Benefits," the PBO, accumulated benefit obligation (ABO) and fair value of plan assets is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and ABO is that the PBO includes projected compensation increases. Additional information is as follows (in millions):

	2004			2003		
	ABO Exceeds Assets	Assets Exceed ABO	Total	ABO Exceeds Assets	Assets Exceed ABO	Total
PBO	$1,496	$14	$1,510	$1,331	$36	$1,367
ABO	1,333	13	1,346	1,176	35	1,211
Plan assets	1,015	26	1,041	766	40	806

The components of net periodic pension expense are as follows (in millions):

	2004	2003	2002
Service cost	$ 41	$ 35	$ 32
Interest cost	81	74	69
Assumed rate of return on plan assets	(85)	(78)	(79)
Amortization of prior service cost	7	5	3
Amortization of transition asset	(1)	(2)	(2)
Curtailment	4	—	—
Recognized actuarial loss	26	9	4
Net periodic pension expense	$ 73	$ 43	$ 27

In connection with the company's sale of the CVS Kenton, OH facility, the company recognized a curtailment loss of $4 million in the fiscal year ended September 30, 2004.

Information about the expected cash flows for the U.S. and non-U.S. pension plans is as follows (in millions):

	U.S.	Non-U.S.	Total
Employer contributions:			
Fiscal 2005 (expected)	$ 76	$ 24	$100
Expected benefit payments:			
Fiscal 2005	44	28	72
Fiscal 2006	45	28	73
Fiscal 2007	46	29	75
Fiscal 2008	46	30	76
Fiscal 2009	48	31	79
Fiscal 2010–2014	270	169	439

The company also sponsors certain defined contribution savings plans for eligible employees. Expense related to these plans was $11 million, $13 million and $11 million for fiscal 2004, 2003 and 2002, respectively.

3.71

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

New Accounting Standards (In Part)

In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." This statement permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act"). The Act, signed into law in December 2003, introduces a prescription drug benefit under Medicare ("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. Given the cap on postretirement benefits introduced in fiscal 2002, the Act is not expected to have a material impact on the Company's accumulated postretirement benefit obligation or the net postretirement benefit costs, however, the Company has elected to defer the adoption of FSP FAS 106-2 until the specific authoritative accounting guidance for the federal subsidy is issued.

In December 2003, the FASB issued a revision of Statement of Financial Accounting Standards ("SFAS") No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits," to improve financial disclosures for defined benefit plans. The revised SFAS requires that companies provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The Company is now required to provide additional disclosures, including, but not limited to, a breakdown of plan assets by category, a description of investment policies and strategies and target allocation percentages for these asset categories. The Company adopted the revised disclosure provisions in the third quarter of fiscal 2004.

9. Retirement Plans

The Company has several noncontributory defined benefit pension plans and defined contribution plans covering substantially all of its employees. The defined benefit plans provide benefits based on the participants' years of service. The Company's funding policy for defined benefit plans is to make annual contributions, which equal or exceed regulatory requirements. The pension and profit-sharing plans at July 3, 2004 and June 28, 2003 held a combined total of 284,637 shares of the Company's Class B common stock.

The Company's Board of Directors annually approves contributions to the defined contribution plans. Expense for the discretionary profit-sharing plan amounted to $700,666, $667,192 and $750,261 in fiscal 2004, 2003 and 2002, respectively.

The Company also has a nonqualified supplemental retirement program ("SERP") for designated officers of the Company, which includes death and disability benefits. The plan is funded from the general assets of the Company.

The postretirement health-care plan covers substantially all employees. The plan is unfunded and contributory. During fiscal 2002, the Company amended the plan to place a cap on the Company paid portion of health-care premiums for retirees.

The Company also provides a 401(k) plan for all of its employees. Employees may contribute up to 100 percent of their pay up to Internal Revenue Service limits. For all hourly employees, the Company will match 50 percent of the first 4 percent that an employee contributes. The amount expensed for the Company match provision of the plan was $218,481, $225,473, and $246,229 in fiscal 2004, 2003 and 2002, respectively.

The Company uses a June 30 measurement date for the majority of its plans. The following provides a reconciliation of benefit obligations, plan assets and funded status of the Company's noncontributory pension plans, SERP and postretirement plans:

	Pension Benefits		SERP Benefits		Postretirement Health-Care Benefits	
	2004	2003	2004	2003	2004	2003
Change in benefit obligations						
Benefit obligations at beginning of year	$20,324,552	$15,790,925	$ 3,511,333	$ 3,153,183	$ 2,346,600	$ 1,869,855
Service cost	492,019	348,632	7,022	1,850	88,547	64,437
Interest cost	1,101,529	1,111,277	195,358	191,440	125,997	135,608
Actuarial (gains) losses	(1,994,348)	3,829,278	(31,959)	485,108	(136,613)	449,288
Benefits paid	(827,264)	(807,430)	(322,615)	(326,314)	(171,906)	(172,588)
Plan amendment	—	—	—	—	—	—
Other	2,861	51,870	—	6,066	—	—
Benefit obligation at end of year	$19,099,349	$20,324,552	$ 3,359,139	$ 3,511,333	$ 2,252,625	$ 2,346,600
Change in plan assets						
Fair value of plan assets at beginning of year	$20,028,261	$15,945,339	$ —	$ —	$ —	$ —
Actual return on plan assets	2,383,935	439,211	—	—	—	—
Employer contributions	187,887	4,451,141	322,615	326,314	171,906	172,588
Benefits paid	(827,264)	(807,430)	(322,615)	(326,314)	(171,906)	(172,588)
Fair value of plan assets at end of year	$21,772,819	$20,028,261	$ —	$ —	$ —	$ —
Funded status	$ 2,673,470	$ (296,291)	$(3,359,139)	$(3,511,333)	$(2,252,625)	$(2,346,600)
Unrecognized transition amount	(11,039)	(34,368)	—	—	384,302	432,339
Unrecognized net actuarial loss	9,197,332	12,371,129	1,905,281	2,077,436	2,747,136	3,067,335
Unrecognized prior service cost	537,759	676,522	(123,211)	(132,190)	(2,339,897)	(2,561,877)
Net amount recognized	$12,397,522	$12,716,992	$(1,577,069)	$(1,566,087)	$(1,461,084)	$(1,408,803)
Amounts recognized in the consolidated balance sheet consist of:						
Prepaid pension cost	$12,088,937	$12,503,491	$ —	$ —	$ —	$ —
Other retirement benefits	(90,092)	(473,496)	(3,202,620)	(3,511,333)	(1,461,084)	(1,408,803)
Accumulated other comprehensive income	398,677	686,997	1,625,551	1,945,246	—	—
Net amount recognized	$12,397,522	$12,716,992	$(1,577,069)	$(1,566,087)	$(1,461,084)	$(1,408,803)
Weighted-average assumptions						
Discount rate	6.25%	5.5%	6.25%	5.5%	6.25%	5.5%
Expected return on plan assets	8.0%	8.0%	N/A	N/A	N/A	N/A

The net periodic benefit cost related to the defined benefit plans is made up of the following components:

	Pension Benefits			SERP Benefits		
	2004	2003	2002	2004	2003	2002
Service cost	$ 492,019	$ 348,632	$ 330,579	$ 7,022	$ 1,850	$ 1,747
Interest cost	1,101,529	1,111,277	1,056,040	195,358	191,440	225,298
Expected return on plan assets	(1,771,387)	(1,561,435)	(1,389,192)	—	—	—
Net amortization	681,875	275,976	152,033	144,191	123,876	99,708
Net periodic benefit cost	$ 504,036	$ 174,450	$ 149,460	$346,571	$317,166	$326,753

	Postretirement Health-Care Benefits		
	2004	2003	2002
Service cost	$ 88,547	$ 64,437	$174,406
Interest cost	125,997	135,608	230,373
Net amortization	9,643	(4,739)	67,335
Net periodic benefit cost	$224,187	$195,306	$472,114

The health care cost trend rate used to determine the postretirement health-care benefit obligation was 9.0% for 2004 and gradually decreases to 5.0% in 2008. 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 effect:

One-Percentage Point	Increase	Decrease
Effect on total of service and interest cost components	$ 1,628	$ (1,504)
Effect on postretirement health-care benefit obligation	$29,347	$(27,136)

The expected long-term rate of return used to determine the net periodic benefit cost was 8.0% for both years. The Company's pension plan weighted-average asset allocation, by asset category was as follows:

	2004	2003
Equity securities	57.2%	39.5%
Debt securities	6.0%	39.3%
Money market, stable value funds and cash	36.8%	21.2%
Total	100.0%	100.0%

The Company employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio is comprised of a diversified blend of equity investments, including a mix of large and small capital mutual funds, as well as growth, value, international mutual funds and Company stock. Fixed income investments include both individual debt issues, along with short-term and intermediate term bond funds.

The Company reviews historical market data and long-term historical relationships, along with current market factors, such as inflation and interest rates when determining the long-term rate of return for plan assets. Peer data and historical returns are also reviewed to check the reasonableness and appropriateness of the long-term rates.

The Company expects to contribute $189,000 to its defined benefit pension plan, $324,000 to its SERP plan and $203,000 to its other post retirement benefit plan in fiscal 2005. Our estimated future benefit payments under our benefit plans are as follows:

	Pension	SERP	Postretirement Health-Care
2005	$ 934,909	$ 322,895	$217,087
2006	937,657	319,161	196,594
2007	978,141	315,081	182,226
2008	1,039,758	310,632	182,305
2009	1,092,865	305,805	184,338
2010–2014	6,307,388	1,435,414	967,575

3.72

PENTAIR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Other Newly Adopted Accounting Standards (In Part)

In December 2003, the Financial Accounting Standards Board ("FASB") revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits*. The revised standard requires new disclosures in addition to those required by the original standard about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit post-retirement plans. As revised, SFAS No. 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by this standard are effective for interim periods beginning after December 15, 2003. However, disclosure of the estimated future benefit payments is effective for fiscal years ending after June 15, 2004. See Note 11 for disclosures regarding our defined benefit pension plans and other post-retirement benefits.

11 (In Part): Benefit Plans

Pension and Post-Retirement Benefits

We sponsor domestic and foreign defined-benefit pension and other post-retirement plans. Pension benefits are based principally on an employee's years of service and/or compensation levels near retirement. In addition, we also provide certain post-retirement health care and life insurance benefits. Generally, the post-retirement health care and life insurance plans require contributions from retirees. We use a December 31 measurement date.

The acquisition of WICOR increased unfunded pension liabilities by approximately $23.7 million and increased post-retirement liabilities by approximately $32.1 million. Corresponding liabilities equal to the unfunded liabilities were recorded on WICOR's opening balance sheet. Annual pension and post-retirement expense for the WICOR plans is expected to be approximately $6.0 million.

The sale of our Tools Group decreased unfunded pension liabilities by approximately $2.5 million and decreased post-retirement liabilities by approximately $4.8 million. The divestiture will eventually result in a reduction in plan liabilities of approximately $34.0 million offset by a corresponding transfer of plan assets to current plan participants and a BDK pension trust, of which approximately $10.0 million has already been paid. The sale of the Tools Group is expected to reduce annual pension expense and post-retirement by about $4.5 million.

In 2004, under the requirements of SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, we recognized a curtailment expense and special termination benefits totaling approximately $1.8 million due to the divestiture of the Tools Group. In 2005, we expect to recognize an additional settlement expense of approximately $5.0 million as the benefits are paid to former plan participants of the Tools Group.

Obligations and Funded Status

The following tables present reconciliations of the benefit obligation of the plans, the plan assets of the pension plans, and the funded status of the plans:

	Pension Benefits		Post-Retirement	
(In thousands)	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation beginning of year	$ 419,616	$ 389,431	$ 36,903	$ 37,760
Service cost	15,998	15,262	696	558
Interest cost	27,514	23,890	3,012	2,273
Liability transfer	—	(588)	—	—
Special termination benefits	1,589	—	—	—
Actuarial (gain) loss	30,799	2,878	2,992	(1,097)
Acquisitions	91,433	—	32,136	—
Divestiture	(14,479)	—	(4,765)	—
Translation loss	3,906	7,663	—	—
Benefits paid	(31,258)	(18,920)	(2,889)	(2,591)
Benefit obligation end of year	$ 545,118	$ 419,616	$ 68,085	$ 36,903
Change in plan assets				
Fair value of plan assets beginning of year	$ 295,399	$ 239,104	$ —	$ —
Actual return on plan assets	53,696	55,477	—	—
Asset transfer—acquisitions	67,709	—	—	—
Asset transfer—divestiture	(11,954)	—	—	—
Company contributions	7,193	19,113	2,889	2,591
Translation loss	496	625	—	—
Benefits paid	(31,258)	(18,920)	(2,889)	(2,591)
Fair value of plan assets end of year	$ 381,281	$ 295,399	$ —	$ —
Funded status				
Plan assets less than benefit obligation	$(163,837)	$(124,217)	$(68,085)	$(36,903)
Unrecognized cost:				
Net transition obligation	122	139	—	—
Net actuarial (gain) loss	76,694	75,668	(612)	(3,680)
Prior service cost (benefit)	915	2,014	(970)	(1,551)
Net amount recognized	$ (86,106)	$ (46,396)	$(69,667)	$(42,134)

Of the $163.8 million underfunding at December 31, 2004, $94.5 million relates to foreign pension plans and our supplemental executive retirement plan which are not commonly funded.

Amounts recognized in the consolidated balance sheets of:

	Pension Benefits		Post-Retirement	
(In thousands)	2004	2003	2004	2003
Prepaid benefit cost	$ 8,428	$ 17,334	$ —	$ —
Accrued benefit liability	(114,545)	(83,776)	(69,667)	(42,134)
Intangible asset	610	1,365	—	—
Accumulated other comprehensive income—pre-tax	19,401	18,681	—	—
Net amount recognized	$ (86,106)	$(46,396)	$(69,667)	$(42,134)

The accumulated benefit obligation for all defined benefit plans was $469.2 million and $363.4 million at December 31, 2004, and 2003, respectively.

Information for pension plans with an accumulated benefit obligation or projected benefit obligation in excess of plan assets are as follows:

(In thousands)	2004	2003
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	$107,605	$ 41,545
Accumulated benefit obligation	201,591	118,699
Pension plans with a projected benefit obligation in excess of plan assets:		
Fair value of plan assets	$374,182	$288,855
Projected benefit obligation	539,661	414,123

Components of net periodic benefit cost are as follows:

	Pension Benefits			Post-Retirement		
(In thousands)	2004	2003	2002	2004	2003	2002
Service cost	$ 15,998	$ 15,262	$ 13,165	$ 696	$ 558	$ 521
Interest cost	27,513	23,890	22,980	3,012	2,273	2,425
Expected return on plan assets	(27,970)	(24,748)	(24,342)			
Amortization of transition obligation	22	20	18	—	—	—
Amortization of prior year service cost (benefit)	450	650	659	(581)	(922)	(869)
Recognized net actuarial (gain) loss	1,446	672	156	—	—	(129)
Special termination benefits	1,589	—	—	—	—	—
Curtailment expense	185	—	—	—	—	—
Net periodic benefit cost	$ 19,233	$ 15,746	$ 12,636	$3,127	$1,909	$1,948
Continuing operations	$ 14,897	$ 12,428	$ 10,436	$2,368	$ 942	$1,027
Discontinued operations	4,336	3,318	2,200	759	967	921
Net periodic benefit cost	$ 19,233	$ 15,746	$ 12,636	$3,127	$1,909	$1,948

Additional Information

	Pension Benefits	
(In thousands)	2004	2003
Decrease (increase) in minimum liability included in other comprehensive income, net of tax	$(437)	$20,864

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits			Post-Retirement		
(Percentages)	2004	2003	2002	2004	2003	2002
Discount rate	5.75	6.25	6.25	5.75	6.25	6.25
Rate of compensation increase	5.00	5.00	5.00			

Weighted-average assumptions used to determine net periodic benefit cost for years ending December 31 are as follows:

	Pension Benefits			Post-Retirement		
(Percentages)	2004	2003	2002	2004	2003	2002
Discount rate	6.25	6.25	7.25	6.25	6.25	7.25
Expected long-term return on plan assets	8.50	8.50	8.50			
Rate of compensation increase	5.00	5.00	5.00			

Discount Rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. This produced a discount rate of 5.75 percent in 2004 and 6.25 percent in 2003 and 2002. There are no known or anticipated changes in our discount rate assumption that will impact our pension expense in 2005.

Expected Rate of Return

The expected rate of return on plan assets is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical ten-year compounded annual return of 10.5 percent, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices. In 2004, the pension plan assets yielded a positive return of 17.6 percent, compared to positive returns of 24.8 percent in 2003 and a negative return of 10.5 percent in 2002. Our expected rate of return in 2004 equaled 8.5 percent, which remained unchanged from 2003 and 2002. In 2004, the significant difference between our expected return on plan assets of $28.0 million compared to our actual return on plan assets of $53.7 million was primarily due to the continued resurgence of the financial markets, plus the return on Pentair common stock. There are no known or anticipated changes in our return assumption that will impact our pension expense in 2005.

We base our determination of pension expense or income on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Since the market-related value of assets recognizes gains or losses over a five-year-period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

Pension-Related Adjustments to Equity

In 2002, our discount rate was lowered from 7.25 percent to 6.25 percent and we realized a negative 10.5 percent return on plan assets which caused the accumulated benefit obligation to exceed the fair market value of plan assets as of December 31, 2002. This unfunded accumulated benefit obligation, plus the existing prepaid asset, was the primary cause of a $29.2 million net-of-tax charge to shareholders' equity for 2002. The recovery of the financial markets in 2003 and positive return on plan assets of 24.8 percent eliminated $20.9 million of the charge to shareholders' equity. In 2004, our discount rate was lowered from 6.25 percent to 5.75 percent.

However, the change in the discount rate assumption was offset by higher than anticipated returns on assets and thus, did not significantly affect our shareholders' equity.

Net Periodic Benefit Cost

Total net periodic pension benefit cost was $19.2 million in 2004, $15.7 million in 2003, and $12.6 million in 2002. Total net periodic pension benefit cost is expected to be approximately $19.1 million in 2005, excluding settlement charges related to the Tools Group divestiture. The increasing trend in net periodic pension cost from 2002 forward is largely driven by the decrease in the discount rate in 2004 and 2002 offset by actual returns on plan assets. The net periodic pension benefit cost for 2005 has been estimated assuming a discount rate of 5.75 percent and an expected return on plan assets of 8.5 percent.

Unrecognized Pension Losses

As of our December 31, 2004 measurement date, our pension plans have $76.7 million of cumulative unrecognized losses of which approximately $7.0 million relates to the use of the market-related value method and is not immediately subject to amortization. The remaining unrecognized loss, to the extent it exceeds 10% of the projected benefit obligation, will be amortized into expense each year on a straight-line basis over the remaining expected future-working lifetime of active participants (currently approximating 12 years). The amount included in pension expense for loss amortization in 2004 was $0.5 million.

The assumed health care cost trend rates at December 31 are as follows:

	2004	2003
Health care cost trend rate asumed for next year	11.50%	9.14%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	4.50%
Year that the rate reaches the ultimate trend rate	2018	2024

The assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

(In thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 165	$ (130)
Effect on postretirement benefit obligation	3,691	(3,211)

Plan Assets

Objective

The primary objective of our pension plans is to meet commitments to our employees at a reasonable cost to the company. This is primarily accomplished through growth of capital and safety of the funds invested. The plans will therefore be actively invested to achieve real growth of capital over inflation through appreciation of securities held and through the accumulation and reinvestment of dividend and interest income.

Asset Allocation

Our actual overall asset allocation for the plans as compared to our investment policy goals is as follows:

			Investment Policy		
Asset Class	2004[(1)]	2003[(1)]	Target	Minimum	Maximum
Large capitalization U.S. stocks	18.6%	20.7%	22.5%	17.5%	27.5%
Mid capitalization, U.S. stocks	11.9%	18.8%	15.0%	10.0%	20.0%
Small capitalization, U.S. stocks	3.2%	3.8%	7.5%	2.5%	12.5%
Pentair stock	10.7%	7.7%	5.0%	0.0%	10.0%
International (non-U.S.) stocks	12.4%	11.6%	15.0%	10.0%	20.0%
Private equity	0.2%	0.5%	0.0%	0.0%	5.0%
Fixed income (bonds)	10.6%	17.3%	15.0%	10.0%	20.0%
Fund of hedged funds	16.0%	12.7%	20.0%	15.0%	25.0%
Cash	16.4%	6.9%			

(1) Actual asset allocation as of December 31, 2004 and 2003, respectively.

We regularly review our asset allocation and periodically rebalance our investments to our targeted allocation when considered appropriate. From time to time, we may be outside our targeted ranges by amounts we deem acceptable.

Our cash balance is higher than normal due to the liquidation of the WICOR pension assets held in a separate trust as of December 31, 2004. Those funds were transferred to our pension master trust and subsequent to December 31, 2004, a portion was reinvested in accordance with our targeted asset allocations. We plan on transferring most of the remaining cash balance to BDK in conjunction with our transfer of certain pension benefit obligations related to the divested Tools Group. We do require a cash balance to be available to fund monthly benefit payments and administrative fees.

Equity securities include Pentair common stock in the amount of $41.1 million and $21.6 million at December 31, 2004, and 2003, respectively. Our investment in Pentair common stock is outside of the targeted range due to the significant increase in the fair value of Pentair stock in 2004.

Cash Flows

Contributions

In 2004, pension contributions totaled $7.2 million, including $2.7 million of contributions to domestic defined benefit pension plans. In 2003, pension contributions totaled $19.1 million, including $15.1 million of contributions to domestic defined benefit pension plans. The contributions in 2004 and 2003 equaled or exceeded the minimum funding requirement. Our 2005 pension contributions are expected to be in the range of $5 million to $10 million.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans as follows:

(In millions)	Pension Benefits	Post-Retirement
2005	$ 29.5	$ 4.4
2006	24.2	4.5
2007	25.2	4.6
2008	26.5	4.6
2009	28.0	4.7
2010–2014	162.7	25.4

Defined Contribution Plans

3.73

DARDEN RESTAURANTS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Retirement Plans

Defined Contribution Plan

We have a defined contribution plan covering most employees age 21 and older. We match contributions for participants with at least one year of service at up to six percent of compensation, based on our performance. The match ranges from a minimum of $0.25 to $1.20 for each dollar contributed by the participant. The plan had net assets of $390,461 at May 30, 2004, and $334,319 at May 25, 2003. Expense recognized in fiscal 2004, 2003, and 2002 was $2,666, $1,732, and $1,593, respectively. Employees classified as "highly compensated" under the Internal Revenue Code are not eligible to participate in this plan. Instead, highly compensated employees are eligible to participate in a separate non-qualified deferred compensation plan. This plan allows eligible employees to defer the payment of all or part of their annual salary and bonus, and provides for awards that approximate the matching contributions and other amounts that participants would have received had they been eligible to participate in our defined contribution and defined benefit plans. Amounts payable to highly compensated employees under the non-qualified deferred compensation plan totaled $88,569 and $69,653 at May 30, 2004, and May 25, 2003, respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). This ESOP originally borrowed $50,000 from third parties, with guarantees by us, and borrowed $25,000 from us at a variable interest rate. The $50,000 third party loan was refinanced in 1997 by a commercial bank's loan to us and a corresponding loan from us to the ESOP. Compensation expense is recognized as contributions are accrued. In addition to matching plan participant contributions, our contributions to the plan are also made to pay certain employee incentive bonuses. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on allocated and unallocated shares held by the ESOP, are used to pay principal, interest, and expenses of the plan. As loan payments are made, common stock is allocated to ESOP participants. In fiscal 2004, 2003, and 2002, the ESOP incurred interest expense of $473, $697, and $1,258, respectively, and used dividends received of $454, $1,002, and $735, respectively, and contributions received from us of $4,093, $4,266, and $5,166, respectively, to pay principal and interest on our debt.

The ESOP shares we own are included in average common shares outstanding for purposes of calculating net earnings per share. At May 30, 2004, the ESOP's debt to us had a balance of $29,403 with a variable rate of interest of 1.43 percent; $12,503 of the principal balance is due to be repaid no later than December 2007, with the remaining $16,900 due to be repaid no later than December 2014. The number of our common shares within the ESOP at May 30, 2004, approximated 10,699,000 shares, representing 4,271,000 allocated shares, 6,000 committed-to-be-released shares, and 6,422,000 suspense shares.

Supplemental Retirement Plans

3.74

AGCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Benefit Plans

The Supplemental Executive Retirement Plan ("SERP") is an unfunded plan that provides Company executives with retirement income for a period of ten years based on a percentage of their final base salary, reduced by the executive's social security benefits and 401(k) employer matching contributions account. The benefit paid to the executive is equal to 3% of the final base salary times credited years of service, with a maximum benefit of 60% of the final base salary. Benefits under the SERP vest at age 65 or, at the discretion of the Board of Directors, at age 62 reduced by a factor to recognize early commencement of the benefit payments.

Net annual SERP cost and the measurement assumptions for the plan for the years ended December 31, 2004, 2003 and 2002 are set forth below (in millions):

	2004	2003	2002
Service cost	$ 0.6	$ 0.6	$ 0.5
Interest cost	0.4	0.3	0.3
Amortization of prior service cost	0.3	0.3	0.3
Recognized actuarial gain	(0.1)	—	(0.1)
Net annual SERP costs	$ 1.2	$ 1.2	$ 1.0
Discount rate	6.25%	6.75%	7.5%
Rate of increase in future compensation	5.0%	5.0%	4.0%

The following tables set forth reconciliations of the changes in benefit obligation and funded status as of December 31, 2004 and 2003 (in millions):

Change in Benefit Obligation	2004	2003
Benefit obligation at beginning of year	$ 6.4	$ 5.3
Service cost	0.6	0.6
Interest cost	0.4	0.3
Actuarial loss	—	0.2
Benefit obligation at end of year	$ 7.4	$ 6.4
Funded status	$(7.4)	$(6.4)
Unrecognized net actuarial gain	(0.3)	(0.5)
Unrecognized prior service cost	2.6	2.9
Net amount recognized	$(5.1)	$(4.0)
Amounts recognized in consolidated balance sheets:		
Accrued benefit liability	$(5.2)	$(4.4)
Intangible asset	0.1	0.4
Net amount recognized	$(5.1)	$(4.0)

The weighted average discount rate used to determine the benefit obligation for the Company's SERP plan for the years ended December 31, 2004 and 2003 was 5.75% and 6.25%, respectively.

At December 31, 2004, the aggregate expected benefit payments for the Company's SERP plan are as follows (in millions):

2005	$0.4
2006	0.4
2007	0.4
2008	0.5
2009	0.5
2010 through 2014	5.5
	$7.7

Multiemployer Plans

3.75

ARKANSAS BEST CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Employee Benefit Plans

Multiemployer Plans

Retirement and health care benefits for the Company's contractual employees are provided by a number of multiemployer funds, 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 designated in the trust agreements. ABF is not a member of some of the designated management carrier organizations and is not directly involved in the administration of the trust funds. ABF contributes to these funds monthly on behalf of its contractual employees, based upon provisions contained in the National Master Freight Agreement. The Central States Southeast and Southwest Area Pension Fund ("Central States"), the multiemployer plan to which ABF makes approximately 50% of its contributions, suffered significant investment losses due to the depressed stock markets and operating deficits in the years 2000 through 2002. Pursuant to a Court Order from the U.S. District Court for the Northern District of Illinois (Eastern Division) on November 17, 2003, pension accruals and health and welfare benefits provided to Central States beneficiaries were reduced on January 1, 2004. The Court Order acknowledged the need for corrective measures to address potential future "Funding Deficiencies" in the Central States plans. There was no change in ABF's required contributions to Central States as a result of the Court Order. ABF's contributions continue to be contractually determined as described above. The U.S. District Court, however, stated that in the event a "Funding Deficiency" occurred, the plans' contributing employers are obligated to correct this "Funding Deficiency." Neither the Company nor ABF has received notification of a "Funding Deficiency" from Central States or any other multiemployer plan to which it contributes. If the Company or ABF were notified of a "Funding Deficiency" in a future period, the amount could be material. In December 2003, Central States Trustees applied to the IRS for an extension of the amortization period for actuarial losses. The Company has not been notified by the Central States Trustees regarding whether the extension has or has not been granted. During 2004, the IBT and the carrier management reallocated the $0.60 per hour contribution increase to the Central States pension fund from the Central States health and welfare fund for the years beginning August 1, 2004 and 2005. Central States Pension Fund reported earning investment returns of approximately 25.4% in 2003 and 14.3% in 2004. The Company has received no other current financial or funding information from Central States (or any other multiemployer plan) for the period ending December 31, 2004. However, the extension of the amortization period, if granted, the reallocation of the $0.60 per hour increase to the pension fund from the health and welfare fund, improved investment returns in 2003 and 2004 along with the plan changes in pension accruals ordered by the U.S. District Court should positively impact the funded status of the Central States Pension Plan, as determined under the ERISA funding standards, although there can be no assurances in this regard.

On April 10, 2004, the U.S. Congress passed into law the Pension Funding Equity Act of 2004. This law provides relief to eligible multiemployer plans. The relief is through an election related to net experience losses for the first plan year beginning after December 31,2001. The plan sponsor may elect to defer, for any plan year after June 30, 2003 and before July 1, 2005, up to 80% of the amount charged to the funding standard account for net experience losses, which include investment losses, to any plan year selected by the plan from either of the two immediately succeeding plan years. Central States Pension Fund is eligible for relief under the law; however, the Company has not been notified by the Central States Trustees as to whether or not it will elect to defer net experience losses under the law.

In the event of insolvency or reorganization, plan terminations or withdrawal by the Company from the multiemployer plans, the Company may be liable for a portion of the multiemployer plan's unfunded vested benefits, the amount of which, if any, has not been determined but which would be material. At December 31, 2004, the Company has a strong financial position with no borrowings under its Credit

Agreement and $468.4 million of Stockholders' Equity. The Company has no plans to withdraw from the multiemployer plans to which ABF contributes.

ABF's aggregate contributions to the multiemployer health, welfare and pension plans are as follows:

($ thousands)	2004	2003	2002
Health and welfare	$ 97,970	$ 90,427	$ 79,703
Pension	82,094	77,110	75,062
Total contributions to multiemployer plans	$180,064	$167,537	$154,765

Amendment of Plan

3.76

TASTY BAKING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (000's)

8 (In Part): Defined Benefit Retirement Plans

The company maintains a partially funded noncontributory pension plan (the "Pension Plan") providing retirement benefits for substantially all employees. Benefits under this Pension Plan generally are based on the employees' years of service and compensation during the years preceding retirement. The company maintains an unfunded Supplemental Executive Retirement Plan ("SERP") providing retirement benefits for key employees designated by the Board of Directors. Benefits under the SERP generally are based on the key employees' years of service and compensation during the years preceding retirement. The company also maintains an unfunded Directors' Retirement Plan. The benefit amount is the annual retainer in the year of retirement.

In December 2004, upon approval by the Board of Directors, the company announced to its employees that it was amending the Pension Plan to freeze benefit accruals effective March 26, 2005. Participants will be credited for service after March 26, 2005, solely for vesting purposes pursuant to the terms of the Pension Plan. Each vested participant will receive their total pension benefit accrued through March 26, 2005, upon retirement from the company.

As a result of the Pension Plan amendment, a remeasurement occurred at November 30, 2004. The remeasurement resulted in the recognition of a pre-tax non-cash loss of $508 as of November 30, 2004, which was the amount of the unrecognized loss outside the "10% corridor," which is 10% of the larger of the projected benefit obligation or the fair value of assets. There was also a one-time curtailment charge of $263 attributable to the recognition of the remainder of unrecognized prior service cost at November 30, 2004. The remeasurement was based on a 6.0% discount rate and actual assets of $61,076 as of November 30, 2004. As a result of the Pension Plan amendment, there was a reduction of the Projected Benefit Obligation ("PBO") of $6,718 immediately after the November 30, 2004 remeasurement, which reduced the net unrecognized loss of the plan within the corridor.

Effective at the beginning of the second quarter 2005, the company adopted a new company funded retirement plan which is a defined contribution benefit that replaces the benefit provided in the Pension Plan. In the new company funded retirement plan, the company will make cash contributions into individual accounts for all eligible employees. These contributions will be equal to a percentage of an employee's eligible compensation and will increase with the employee's age and years of credited service.

Effective October 2004, the SERP for all active employees was converted from a defined benefit to a defined contribution plan to be consistent with the changes made to the Pension Plan. See Note 10 for more information.

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The components of pension, SERP, and Directors' Retirement plans cost are summarized as follows:

	2004	2003	2002
Service cost-benefits earned during the year	$ 1,657	$ 1,486	$ 1,435
Interest cost on projected benefit obligation	5,288	5,441	5,407
Expected return on plan assets	(5,174)	(4,786)	(5,665)
Prior service cost amortization	10	(2)	(17)
Actuarial loss recognition	50	51	50
Actuarial loss recognition, in excess of corridor	508	—	4,656
Curtailment charge	263	—	—
SERP amendment	(153)	—	—
Net pension amount charged to income	$ 2,449	$ 2,190	$ 5,866

The following table sets forth the change in projected benefit obligation, change in plan assets, funded status of the pension, SERP, and Directors' Retirement plans and net liability recognized in the company's balance sheet at December 25, 2004 and December 27, 2003:

	2004	2003
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$88,867	$81,524
Service cost	1,657	1,486
Interest cost	5,288	5,441
Actuarial loss	2,249	5,630
Curtailment gain	(6,720)	—
SERP amendment	(153)	—
Benefits paid	(5,512)	(5,214)
Projected benefit obligation, end of year	$85,676	$88,867
Change in accumulated benefit obligation		
Accumulated benefit obligation, beginning of year	$81,631	$73,873
Accumulated benefit obligation, end of year	$85,647	$81,631
Change in pension plan assets		
Fair-value of plan assets, beginning of year	$61,815	$57,229
Actual return on plan assets	5,414	9,546
Benefits paid	(5,116)	(4,960)
Fair value of plan assets, end of year	$62,113	$61,815
Net liability recognized in balance sheet		
Funded status of plan, end of year	$(23,563)	$(27,052)
Unrecognized actuarial loss	3,970	9,238
Unrecognized prior service cost	(81)	193
Net liability recognized in balance sheet end of year	$(19,674)	$(17,621)
Amounts recognized in the statement of financial position consists of:		
Accrued benefit cost	$(19,674)	$(17,621)
Additional minimum liability	(3,931)	(2,251)
Intangible asset	—	292
Deferred tax effect	1,533	723
Accumulated other comprehensive loss	2,398	1,236
Net amount recognized, end of year	$(19,674)	$(17,621)

10. Defined Contribution Retirement Plans

The Tasty Baking Company 401(k) Thrift Plan ("Thrift Plan") permits participants to make contributions to the plan on a pre-tax salary reduction basis in accordance with the provision of Section 401(k) of the Internal Revenue Code. After six months of employment, the company matches 100% of participant's contributions up to a specified limit. Company contributions charged against income totaled $438 in 2004, $467 in 2003, and $483 in 2002. The Thrift Plan is administered under a Section 401(k) prototype plan sponsored by Mellon HR & IS Solutions. Under the Thrift Plan, the company's contributions are invested in Tasty Baking Company common stock, and participants may choose from a selection of guaranteed and mutual fund options offered by Dreyfus for investment of their contributions. The company also maintains the Tasty Baking Oxford, Inc. 401(k) Savings Plan ("Oxford Plan") for the employees who work for its Oxford subsidiary. The Oxford Plan is also administered by Mellon HR & IS Solutions and is similar to the Thrift Plan except that the company match is contributed in cash. The company had 188,527 shares of its common stock reserved for possible issuance under the Thrift Plan at December 25, 2004.

Effective March 27, 2005, the company is merging the Thrift Plan and the Oxford Plan into the Tasty Baking Company 401(k) and Company Funded Retirement Plan ("Retirement Plan"). All assets of the Thrift Plan and the Oxford Plan will be transferred immediately after the effective date to the Retirement Plan which is sponsored and administered by the Vanguard Group. In the Retirement Plan, all participants will receive a company match of 50% of the first 4% contributed to the Retirement Plan which will be paid in cash. In the Retirement Plan, the waiting period for participation has been eliminated. Participants will be offered a broader array of investment choices and new target retirement date investment options. In addition, as a replacement for the company's defined benefit plan which was frozen as of March 26, 2005, the company will make weekly retirement contributions for all eligible employees. These contributions are based on employees' point values which are the sum of age and years of service as of January 1 each year. All employees will receive contributions that range from 2% to 5% of eligible compensation relative to their point totals. Employees at March 27, 2005, who have 20 years of service or 10 years of service and 60 points will receive an additional "grandfathered" contribution of between 1.5% and 3.5% of salary as of that date. The "grandfathered" contribution amount will remain constant until retirement or separation of service. These "grandfathered" contributions are being made to compensate older employees for the shorter earnings period that their accounts will have to appreciate in value.

As mentioned in Note 8, effective October 2004, the company converted the SERP for one eligible active employee from an unfunded defined benefit to an unfunded defined contribution SERP to be consistent with the changes in the Pension Plan. As a result of the change, $153 was transferred to the defined contribution liability from the defined benefit liability. The total defined contribution SERP liability for 2004, including the $153 transferred from the defined benefit SERP, was $218.

Special Termination Benefits

3.77

MERCK & CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

4 (In Part): Restructuring

In October 2003, the Company announced plans to eliminate 4,400 positions as part of a cost-reduction initiative that was completed at the end of 2004. As of December 31, 2004, the Company had eliminated 5,100 positions, as the Company identified additional opportunities to eliminate positions and reduce costs. Most of the additional eliminations came from contractor positions. The Company recorded restructuring costs of $104.6 million for 2004 and $194.6 million for 2003 in Marketing and administrative expense. Of these amounts, in 2004 and 2003, respectively, $82.0 million and $101.8 million related to employee severance benefits, $20.9 million and $86.0 million related to curtailment, settlement and termination charges on the Company's pension and other postretirement benefit plans (see Note 15) and $1.7 million and $6.8 million related to a modification in the terms of certain employees' stock option grants.

15 (In Part): Pension and Other Postretirement Benefit Plans

The Company has defined benefit pension plans covering eligible employees in the United States and in certain of its international subsidiaries. Pension benefits in the United States are based on a formula that considers final average pay and years of credited service: In addition, the Company provides medical, dental and life insurance benefits, principally to its eligible U.S. retirees and similar benefits to their dependents, through its other postretirement benefit plans. The Company uses a December 31 measurement date for substantially all of its pension plans and for its other postretirement benefit plans.

The Company recorded a settlement loss of $28.3 million on its pension plans and a curtailment loss of $11.7 million on its other postretirement benefit plans in 2003 resulting from reductions in employment levels primarily in connection with restructuring activities. The Company also recorded termination charges in 2004 and 2003 of $18.4 million and $37.9 million, respectively, on its pension plans and $3.1 million and $8.1 million, respectively, on its other postretirement benefit plans related to expanded eligibility for certain employees exiting primarily under the restructuring action. (See Note 4.)

In addition, the Company recorded a settlement loss of $23.0 million in 2004 on certain of its domestic pension plans resulting from employees electing to receive their pension benefits as lump sum payments.

The net cost for the Company's pension plans consisted of the following components:

	2004	2003	2002
Service cost	$ 307.7	$ 263.4	$ 218.8
Interest cost	286.0	260.6	229.9
Expected return on plan assets	(367.7)	(341.2)	(314.3)
Net amortization	130.0	115.9	49.1
Settlements	23.0	28.3	—
Termination benefits	18.4	37.9	—
Net pension cost	$ 397.4	$ 364.9	$ 183.5

The net pension cost attributable to U.S. plans included in the above table was $283.0 million in 2004, $264.8 million in 2003 and $108.0 million in 2002.

The net cost of postretirement benefits other than pensions consisted of the following components:

	2004	2003	2002
Service cost	$ 86.0	$ 68.3	$ 46.6
Interest cost	105.7	90.4	71.4
Expected return on plan assets	(89.4)	(62.0)	(78.6)
Net amortization	31.0	28.0	(11.7)
Curtailments	(12.3)	1.5	(54.2)
Termination benefits	3.1	8.1	—
Net postretirement benefit cost	$ 124.1	$ 134.3	$(26.5)

The cost of health care and life insurance benefits for active employees was $295.3 million in 2004, $273.0 million in 2003 and $241.7 million in 2002.

Summarized information about the changes in plan assets and benefit obligation is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Fair value of plan assets at January 1	$4,282.7	$3,105,4	$ 949.5	$ 678.8
Actuat return on plan assets	718.8	1,033.3	150.7	223.7
Company contributions	761.5	641.3	94.4	63.5
Benefits paid from plan assets	(296.1)	(425.3)	(29.3)	(16.5)
Discontinued operations	—	(80.5)	—	—
Other	14.0	8.5	—	—
Fair value of plan assets at December 31	$5,480.9	$4,282.7	$1,165.3	$ 949.5
Benefit obligation at January 1	$5,071.9	$4,410.1	$1,840.4	$1,329.6
Subsidy under the Act	—	—	(169.0)	—
Service cost	307.7	263.4	86.0	68.3
Interest cost	286.0	260.6	105.7	90.4
Actuarial losses	511.2	624.0	152.0	486.9
Benefits paid	(327.1)	(466.0)	(65.1)	(58.2)
Plan amendments	4.6	27.3	(60.7)	—
Curtailments	—	—	—	19.4
Termination benefits	18.4	37.9	3.1	8.1
Discontinued operations	—	(85.2)	—	(104.1)
Other	6.8	(0.2)	—	—
Benefit obligation at December 31	$5,879.5	$5,071.9	$1,892.4	$1,840.4

POSTEMPLOYMENT BENEFITS

3.78 SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. *SFAS No. 112* does not require that the amount of postemployment benefits be disclosed. Accordingly, many of the survey companies make little or no disclosure about postemployment benefits in the years following the year of adopting *SFAS No. 112*.

3.79 An example of a disclosure for postemployment benefits follows.

3.80

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Postemployment Benefits

We have certain postemployment benefit plans covering most of our U.S. employees and, in some cases, employees of international subsidiaries. The benefit plans may provide severance, long-term disability income, health care, life insurance, conlinuation of health and life insurance coverage for disabled employees or other welfare benefits. We account for these benefits on an accrual basis. Our funding policy provides that contributions shall be at least equal to our cash basis obligation. Additional amounts may also be provided from time to time.

17 (In Part): Postretirement and Other Employee Benefits Other Than Pensions

We have a number of postemployment plans covering severance, long-term disability income, health care, life insurance, continuation of health and life insurance coverage for disabled employees or other welfare benefits. At December 31, 2004 and 2003, the accumulated postemployment disability benefit consisted of a current portion of $9.1 million and $5.9 million, respectively, included in accounts payable and accrued expenses and $33.2 million and $22.7 million, respectively, included in other liabilities and deferred credits.

EMPLOYEE COMPENSATORY PLANS

3.81 Effective for fiscal years beginning after December 15, 1995, 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.

3.82 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.

3.83 Examples of employee compensatory plan disclosures follow.

3.84

TABLE 3-13: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Stock options	587	590	587	585
Stock award	381	318	332	327
Savings/investment	379	358	339	324
Stock purchase	226	189	189	188
Deferred compensation	100	108	93	78
Employee stock ownership	92	93	93	110
Incentive compensation	74	66	63	76
Profit-sharing	66	81	80	94

Stock Option Plans

3.85

CLEVELAND-CLIFFS INC (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Stock Compensation

Effective January 1, 2003, the Company adopted the fair value method, which is considered the preferable accounting method, of recording stock-based employee compensation as contained in Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised December 2004), "Accounting for Stock-Based Compensation." As prescribed in SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," the Company elected to use the "prospective method." The prospective method requires expense to be recognized for all awards granted, modified or settled beginning in the year of adoption. Historically, the Company applied the intrinsic method as provided in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations and accordingly, no compensation cost had been recognized for stock options in prior years. As a result of adopting the fair value method for stock compensation, all future awards will be expensed over the stock options' vesting period. The adoption did not have a significant financial effect in 2003. The following illustrates the pro forma effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to all awards unvested in each period:

	Pro Forma		
(In millions)	2004	2003	2002
Net income (loss) as reported	$323.6	$(32.7)	$(188.3)
Stock-based employee compensation:			
Add expense included in reported results	6.6	6.0	2.0
Deduct fair value-based method	(5.4)	(3.8)	(2.7)
Pro forma net income (loss)	$324.8	$(30.5)	$(189.0)
Earnings (loss) per share:			
Basic—as reported	$14.94	$(1.60)	$(9.31)
Basic—pro forma	14.99	(1.49)	(9.35)
Diluted—as reported	11.80	(1.60)	(9.31)
Diluted—pro forma	11.84	(1.49)	(9.35)

The market value of restricted stock awards and performance shares is charged to expense over the vesting period.

In December 2004, FASB issued SFAS 123R, "Share-Based Payment" which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees to be recognized in the financial statements at fair value and eliminates the intrinsic value method. The Statement which is effective for periods beginning after June 15, 2005 is not expected to have a significant impact on the Company's consolidated financial statements.

Note 11. Stock Plans

The 1992 Incentive Equity Plan, as amended in 1999, authorizes the Company to issue up to 3,400,000 Common Shares to employees upon the exercise of Options Rights, as Restricted Shares, in payment of Performance Shares or Performance Units that have been earned, as Deferred Shares, or in payment of dividend equivalents paid on awards made under the Plan. Such shares may be shares of original issuance, treasury shares, or a combination of both. Stock options may be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to repricing, and must be exercisable not later than ten years and one day after the date of grant. Common Shares may be awarded or sold to certain employees with disposition restrictions over specified periods.

The 1996 Nonemployee Directors' Compensation Plan, as amended in 2001, authorizes the Company to issue up to 200,000 Common Shares to nonemployee Directors. The Plan was amended effective in 1999 to provide for the grant of 4,000 Restricted Shares to nonemployee Directors first elected on or after January 1, 1999, and also provides that nonemployee Directors must take at least 40 percent of their annual retainer in Common Shares. The Restricted Shares vest five years from the date of award.

The Company recorded expense of $6.6 million in 2004, $6.0 million in 2003, and $2.0 million in 2002 relating to other stock-based compensation, primarily the Performance Share program.

SFAS No. 123 requires pro forma disclosure of net income and earnings per share as if the fair value method for valuing stock options had been applied. The Company's pro forma information follows:

	2004	2003	2002
Net income (loss) (millions)	$324.8	$(30.5)	$(189.0)
Earnings (loss) per share:			
Basic	14.99	(1.49)	(9.35)
Diluted	11.84	(1.49)	(9.35)

The fair value of these options was estimated at the date of grant for 2002 (no options were issued in 2004 or 2003) using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2002
Risk-free interest rate	4.51%
Dividend yield	3.40%
Volatility factor—market price of Company's common shares	.339
Expected life of options—years	4.31
Weighted-average fair value of options granted during the year	$3.60

Compensation costs included in the pro forma information reflect fair values associated with options granted after January 1, 1995. Pro forma information may not be indicative of future pro forma information applicable to future outstanding awards.

Stock option, restricted stock award, deferred stock allocation, and performance share activities under the Company's Incentive Equity Plans, and the Nonemployee Directors' Compensation Plan are summarized as follows:

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock options:						
Options outstanding at beginning of year	956,932	$26.40	1,627,456	$ 23.97	1,620,058	$24.12
Granted during the year					50,000	14.40
Exercised	(719,780)	24.94	(361,064)	16.69		
Cancelled or expired	(19,068)	27.32	(309,460)	24.92	(42,602)	18.51
Options outstanding at end of year	218,084	31.17	956,932	26.40	1,627,456	23.97
Options exercisable at end of year	218,084	31.17	956,932	26.40	860,270	20.42
Restricted awards:						
Awarded and restricted at beginning of year	88,114		129,514		133,176	
Awarded during the year			51,370		8,212	
Vested	(27,364)		(84,770)			
Cancelled			(8,000)		(11,874)	
Awarded and restricted at end of year	60,750		88,114		129,514	
Performance shares:						
Allocated at beginning of year	769,212		704,436		556,400	
Allocated during the year	121,560		314,210		321,800	
Issued	(88,532)		(86,492)			
Forfeited/cancelled	(185,058)		(162,942)		(173,764)	
Allocated at end of year	617,182		769,212		704,436	
Directors' retainer and voluntary shares:						
Awarded at beginning of year	18,684		15,624		20,942	
Awarded during the year	6,360		18,684		15,622	
Issued	(18,684)		(15,624)		(20,940)	
Awarded at end of year	6,360		18,684		15,624	
Reserved for future grants or awards at end of year:						
Employee plans	621,188		538,622		423,800	
Directors' plans	51,624		57,984		76,668	
Total	672,812		596,606		500,468	

Exercise prices for stock options outstanding as of December 31, 2004 ranged from $14.40 to $37.90, summarized as follows:

	Outstanding and Exercisable		
Range of Exercise Prices	Number of Shares Underlying Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$10–$20	36,400	6.6	$14.52
$20–$30	38,900	3.0	22.03
$30–$40	142,784	4.0	37.90
	218,084	4.3	$31.17

3.86

COOPER INDUSTRIES, LTD. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

Effective January 1, 2003, Cooper adopted Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), as amended. Cooper's stock-based compensation plans are described in Note 10 of the Notes to the Consolidated Financial Statements. Cooper utilized the prospective method of adoption. Cooper accounted for stock-based compensation awards granted, modified or settled prior to January 1, 2003 using the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations ("APB No. 25"). In accordance with APB No. 25, compensation expense was recognized for performance-based and restricted stock awards. No compensation expense was recognized under Cooper's fixed stock option plans or Employee Stock Purchase Plan for grants prior to January 1, 2003.

SFAS No. 123 provides an alternative fair value based method for recognizing stock-based compensation in which compensation expense is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The fair value of stock options is estimated on the grant date, using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2004, 2003 and 2002 respectively: dividend yield of 2.5%, 3.8% and 3.9%, expected volatility of 34.0%, 34.0% and 33.0%, risk free interest rates of 3.1%, 2.7% and 4.8% and expected lives of 5 years in 2004, 4 years in 2003 and 7 years for 2002. The fair value of restricted stock and performance-based awards granted in 2004 and 2003 was measured at the market price on the grant date. Total stock-based compensation expense was $22.1 million in 2004 and $10.5 million in 2003. Previously accrued stock-based compensation of $1.7 million related to performance based awards was reversed to income during 2002 as it was determined that certain performance targets would not be met.

The following table presents pro forma net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each year.

(In millions)	2004	2003	2002
Net income, as reported	$339.8	$148.3	$213.7
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	13.3	6.3	(1.0)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(14.6)	(12.6)	(12.9)
Pro forma net income	$338.5	$142.0	$199.8
Earnings per share:			
Basic—as reported	$ 3.67	$ 1.60	$ 2.29
Basic—pro forma	3.66	1.53	2.14
Diluted—as reported	3.58	1.58	2.28
Diluted—pro forma	3.57	1.52	2.14

Impact of New Accounting Standards (In Part)

In December 2004, the Financial Accounting Standards Board issued FASB Statement 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123. The revised statement is effective at the beginning of the first interim period beginning after June 15, 2005. Statement 123(R) must be applied to new awards and previously granted awards that are not fully vested on the effective date. Cooper adopted SFAS No. 123 using the prospective transition method which applied only to awards granted, modified or settled after the adoption date. Accordingly, compensation cost for some previously granted awards that were not recognized under SFAS No. 123 will be recognized under Statement 123(R). However, had we adopted Statement 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 above. Statement 123(R) also requires 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 current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While Cooper cannot accurately estimate what those amounts will be in the future (as they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized for such excess tax deductions were $5.3 million, $6.4 million and $0.6 million in 2004, 2003 and 2002, respectively.

Note 10 (In Part): Stock Options and Employee Stock Purchase Plan

Under Cooper stock option plans, officers, directors and key employees may be granted options to purchase Cooper's common stock at no less than 100% of the market price on the date the option is granted. Options generally become exercisable ratably over a three-year period commencing one year from the grant date and have a maximum term of ten years. The plans also provide for the granting of performance-based stock awards and restricted stock awards to certain key executives that generally vest over periods ranging from three to five years.

A summary of the status of Cooper's fixed stock option plans for officers and employees as of December 31, 2004 and activity during the three years ended December 31, 2004 is presented below:

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	7,325,526	$40.32	7,318,903	$40.74	4,740,658	$44.07
Granted	1,062,750	$55.65	1,421,100	$37.36	2,806,425	$35.21
Exercised	(1,993,088)	$40.93	(1,184,395)	$39.40	(41,096)	$38.52
Canceled	(139,456)	$42.04	(230,082)	$40.12	(187,084)	$42.78
Outstanding at end of year	6,255,732	$42.69	7,325,526	$40.32	7,318,903	$40.74
Options exercisable at end of year	3,488,466		3,642,301		3,033,777	
Options available for grant at end of year	5,013,148		1,351,330		2,359,814	

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding at 12/31/04	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Exercisable at 12/31/04	Weighted-Average Exercise Price
$29.46–$35.21	1,743,130	6.4	$35.14	891,643	$35.10
$36.76–$39.06	1,663,098	3.6	$37.52	792,653	$37.75
$39.77–$43.47	425,896	4.0	$43.43	422,562	$43.45
$45.06–$46.10	1,059,279	5.2	$45.97	1,059,279	$45.97
$50.67–$57.56	1,364,329	5.4	$55.86	322,329	$56.60
	6,255,732			3,488,466	

During 2004, 2003 and 2002, respectively, options to purchase 18,000, 18,000 and 9,000 shares of common stock were granted to nonemployee directors at an exercise price of $57.27, $37.28 and $41.08. During 2004, options for 5,000 shares were exercised at prices ranging from $42.13 to $49.03 per share. No nonemployee director options were exercised in 2003 or 2002. At December 31, 2004, options under the director plans for 44,000 common shares were exercisable at $33.66 to $63.78 per share, and 54,968 shares were reserved for future grants.

3.87

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Employee Stock-Based Compensation

On January 1, 2004, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. We are reporting this change in accounting principle using the modified prospective method of adoption described in SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. Beginning in 2004, our results of operations reflect compensation expense for all employee stock-based compensation, including the unvested portion of stock options granted prior to 2004. This method results in the same amount of compensation expense which would have been recognized had the fair value recognition provisions of SFAS No. 123 been applied from its original effective date. Prior to 2004, we accounted for our employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under this method of accounting, no compensation expense was recognized for stock options or for our employee stock purchase plan. In accordance with the modified prospective method of transition, results for prior years have not been restated to reflect this change in accounting principle. For 2003 and 2002, the pro forma net income and earnings per share information presented below was determined as if we had accounted for our employee stock-based compensation under the fair value method of SFAS No. 123.

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model. During 2003, we modified the method used to determine the assumptions used in valuing options by utilizing only historical data subsequent to the spin-off of our former eFunds segment in December 2000. Prior to 2003, we did not have enough historical information subsequent to the eFunds spin-off to provide a statistically valid sample of observations. The following weighted-average assumptions were used in valuing options issued:

	2004	2003	2002
Risk-free interest rate (%)	3.6	2.9	4.8
Dividend yield (%)	4.0	4.3	6.0
Expected volatility (%)	22.0	24.4	26.2
Weighted-average option life (years)	5.5	6.0	6.0

The weighted-average fair value of options granted was $6.64 per share in 2004, $6.06 per share in 2003 and $7.42 per share in 2002. The estimated fair value of the options is recognized as expense on the straight-line basis over the options' vesting periods. Options generally vest one-third each year over three years. The following table illustrates the effect on net income and earnings per share as if the fair value method had been applied to all outstanding and unvested awards in 2003 and 2002. The information presented for 2004 reflects our actual results of operations.

	Actual	Pro Forma	
(Dollars in thousands, except per share amounts)	2004	2003	2002
Net income, as reported	$197,991	$192,472	$214,274
Add employee stock-based compensation included in net income:			
Stock options and employee stock purchase plan	6,924	—	303
Performance shares	447	—	—
Restricted stock and restricted stock units	4,877	954	2,799
Total	12,248	954	3,102
Tax benefit	(4,569)	(340)	(1,151)
Employee stock-based compensation included in net income, net of tax	7,679	614	1,951
Deduct fair value employee stock-based compensation, net of tax	(7,679)	(5,077)	(5,239)
Pro forma net income	$197,991	$188,009	$210,986
Earnings per share:			
Basic			
As reported	$ 3.95	$ 3.53	$ 3.41
Pro forma	3.95	3.45	3.36
Diluted			
As reported	$ 3.92	$ 3.49	$ 3.36
Pro forma	3.92	3.42	3.32

Accounting Pronouncements Not Yet Adopted

In December 2004, the FASB issued a revision to SFAS No. 123. The new statement is referred to as SFAS No. 123(R) and is entitled *Share-Based Payment*. The new statement requires companies to recognize expense for stock-based compensation in the statement of income and is effective for us on July 1, 2005. We do not expect the provisions of SFAS No. 123(R) to result in a significant change in the compensation expense we currently recognize in our statements of income under SFAS No. 123.

Note 10 (In Part): Employee Benefit and Stock-Based Compensation Plans

Stock Incentive Plan

Under our stock incentive plan, stock-based awards may be issued to employees via a broad range of methods, including non-qualified or incentive stock options, restricted stock and restricted stock units, stock appreciation rights and other awards based on the value of Deluxe common stock. During 2004, we implemented changes to our long-term compensation strategy. Rather than using stock options as the exclusive form of long-term incentive, we are now utilizing a combination of stock options, performance shares and restricted stock, as authorized under this plan. The plan reserved 8.5 million shares of common stock for issuance, with 4.8 million of these shares still available for issuance as of December 31, 2004.

All options granted under the plan allow for the purchase of shares of common stock at prices equal to their market value at the date of grant. Options become exercisable in varying amounts generally beginning one year after the date of grant, with one-third vesting each year over three years. In the case of qualified retirement, death, disability or involuntary termination, options vest immediately. Employees forfeit unvested options when they voluntarily terminate their employment with the company. Terms vary, but generally options may be exercised up to seven years following the date of grant. On January 1, 2004, we adopted the fair value method of accounting for employee stock-based compensation. As a result, compensation expense of $6.3 million was recognized in 2004 related to stock options. Compensation expense is recorded over the three-year vesting period. Prior to 2004, in accordance with APB Opinion No. 25, we did not recognize compensation expense for stock options.

Information regarding options issued under the current and all previous plans is as follows:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2001	3,548,854	$23.05
Granted	1,251,349	47.64
Exercised	(1,150,888)	24.21
Canceled	(118,300)	29.46
Outstanding at December 31, 2002	3,531,015	31.17
Granted	1,375,650	38.58
Exercised	(858,764)	23.03
Canceled	(200,716)	26.83
Outstanding at December 31, 2003	3,847,185	35.87
Granted	199,126	42.35
Exercised	(538,972)	28.81
Canceled	(256,843)	42.51
Outstanding at December 31, 2004	3,250,496	36.84

Options for the purchase of 1,955,950 shares were exercisable at December 31, 2004 at a weighted-average exercise price of $33.80, 1,471,102 shares were exercisable at December 31, 2003 at a weighted-average exercise price of $30.33 and 1,528,341 shares were exercisable at December 31, 2002 at a weighted-average exercise price of $24.17.

For options outstanding and exercisable at December 31, 2004, the exercise price ranges and average remaining lives were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$16.00 to $32.99	933,712	3.7 years	$21.74	933,712	$21.74
$33.00 to $44.99	1,292,185	5.3 years	39.17	324,780	38.70
$45.00 to $47.67	1,024,599	4.1 years	47.67	697,458	47.67
Total	3,250,496	4.5 years	36.84	1,955,950	33.80

Under our 2004 performance share grant, the level of shares earned is contingent upon attaining specific performance targets over a three-year period. The fair value of the performance shares granted is equal to the market price of our stock at the date of grant. Compensation expense is recorded over the three-year performance period based on our estimate of the number of shares which will be earned by the award recipients. Compensation expense of $0.4 million was recognized for these awards during 2004.

We also utilize restricted stock and restricted units when compensating employees. In addition to those awards made under our stock incentive plan, officers may elect to receive a portion of their compensation in the form of restricted stock. Compensation expense for these awards is recorded over the applicable service period. We issued 70,819 restricted shares and restricted stock units at a weighted-average fair value of $42.12 in 2004, 70,536 restricted shares and restricted stock units at a weighted-average fair value of $39.49 in 2003 and 61,785 restricted shares and restricted stock units at a weighted-average fair value of $45.52 in 2002. These awards generally vest over periods ranging from one to three years. Compensation expense recognized for these issuances was $4.9 million in 2004, $1.0 million in 2003 and $2.8 million in 2002.

3.88

THE SCOTTS COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation Awards

Beginning in fiscal 2003, the Company began expensing prospective grants of employee stock-based compensation awards in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of SFAS No. 123". The fair value of awards granted in fiscal 2003 and subsequent years are expensed ratably over the vesting period, which has historically been three years, except for grants to members of the Board of Directors, which have a six month vesting period. Prior to fiscal 2003, the Company accounted for stock options under APB 25, "Accounting for Stock Issued to Employees" and, as allowable, adopted only the disclosure provisions of SFAS No. 123.

On March 31, 2004, the Financial Accounting Standard Board (FASB) issued its Exposure Draft, "Share-Based Payment" which is a proposed amendment to SFAS No. 123. Generally, the approach in the Exposure Draft is similar to the approach described in SFAS No. 123. The Exposure Draft would require all share-based payments to employees, including grants of employee stock options and stock appreciation rights, to be recognized in the income statement based on their fair values. Companies would no longer have the option to account for their share-based awards to employees using APB Opinion No. 25 (the intrinsic value model) or SFAS No. 123 (the fair value model). As the Company is accounting for its employee stock-based compensation awards in accordance with SFAS No. 123, adoption of the proposed amendment is not expected to have a significant effect on the Company's results of operations.

In fiscal 2004, the Company granted 59,000 options to executive officers and key employees in our international organization, 76,250 options to members of the Board of Directors and 387,750 stock appreciation rights to executive officers and other key employees in our domestic organization. In fiscal 2003, the Company granted 404,500 options to officers and key employees, 63,000 options to members of the Board of Directors, and 239,000 stock appreciation rights to other key employees. The exercise price for the option awards and the stated price for the 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 2004 and 2003 was $7.8 million and $4.8 million, respectively.

The Black-Scholes value of options granted in fiscal 2002 was $10.7 million. The Black-Scholes value of all stock-based compensation grants awarded during fiscal 2004 and fiscal 2003 was $11.0 million and $13.1 million, respectively. Had compensation expense been recognized for the periods ended September 30, 2004, 2003 and 2002 in accordance with the recognition provisions of SFAS No. 123, the Company would have recorded net income and net income per share as follows (in millions, except per share data):

	2004	2003	2002
Net income	$100.9	$103.8	$82.5
Stock-based compensation expense included in reported net income, net of tax	4.9	2.9	
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(7.1)	(7.0)	(4.9)
Net income, as adjusted	$ 98.7	$ 99.7	$77.6
Net income per share:			
Basic	$ 3.12	$ 3.36	$2.81
Diluted	3.03	3.23	2.61
Net income per share, as adjusted:			
Basic	$ 3.06	$ 3.23	$2.65
Diluted	2.96	3.11	2.45

The "as adjusted" amounts shown above are not necessarily representative of the impact on net income in future periods.

Note 10 (In Part): Shareholders' Equity

Under The Scotts Company 1992 Long Term Incentive Plan (the "1992 Plan"), stock options and performance share awards were granted to officers and other key employees of the Company. The 1992 Plan also provided for the grant of stock options to non-employee directors of Scotts. The maximum number of common shares that may be issued under the 1992 Plan is 1.7 million, plus the number of common shares surrendered to exercise options (other than non-employee director options) granted under the 1992 Plan, up to a maximum of 1.0 million surrendered common shares. Vesting periods under the 1992 Plan vary and were determined by the Compensation and Organization Committee of the Board of Directors.

Under The Scotts Company 1996 Stock Option Plan (the "1996 Plan"), stock awards may be granted to officers and other key employees of the Company and non-employee directors of The Scotts Company. The maximum number of common shares that may be issued under the 1996 Plan is 5.5 million. Vesting periods under the 1996 Plan vary. Generally, a 3-year cliff vesting schedule is used unless decided otherwise by the Compensation and Organization Committee of the Board of Directors. 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.

Under The Scotts Company 2003 Stock Option and Incentive Equity Plan (the "2003 Plan"), stock awards (including stock appreciation rights) may be granted to officers and other key employees of the Company and non-employee directors of The Scotts Company. The maximum number of common shares that may be issued under the 2003 Plan is 1.8 million. Vesting periods under the 2003 Plan vary. Generally a three-year cliff vesting schedule is used unless decided otherwise by the Compensation and Organization Committee of the Board of Directors.

Aggregate stock award activity consists of the following (options/SARs in millions):

	2004		2003		2002	
	Number of Options/SARs	Weighted Avg. Exercise Price	Number of Options/SARs	Weighted Avg. Exercise Price	Number of Options/SARs	Weighted Avg. Exercise Price
Beginning balance	4.1	$35.00	4.2	$31.25	4.6	$27.94
Awards granted	0.6	$58.81	0.7	$49.07	0.6	$40.69
Awards exercised	(0.8)	$29.34	(0.7)	$27.14	(0.9)	$21.45
Awards forfeited	(0.1)	$48.55	(0.1)	$36.43	(0.1)	$28.78
Ending balance	3.8	$39.74	4.1	$35.00	4.2	$31.25
Exercisable	2.3	$33.94	2.4	$31.31	2.8	$29.01

The following summarizes certain information pertaining to stock awards outstanding and exercisable at September 30, 2004 (shares in millions):

	Awards Outstanding			Awards Exercisable	
Range of Exercise Price	No. of Options/SARS	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	Wtd. Avg. No. of Options/SARS	Exercise Price
$15.00–$20.00	0.2	1.95	$18.69	0.2	$18.69
$20.00–$25.00	0.1	1.41	21.59	0.1	21.59
$25.00–$30.00	0.1	3.02	26.60	0.1	26.60
$30.00–$35.00	0.9	4.93	31.01	0.8	31.02
$35.00–$40.00	1.1	6.03	38.06	0.6	36.59
$40.00–$45.00	0.1	5.05	40.18	0.1	40.19
$45.00–$50.00	0.4	8.04	47.82	0.1	47.46
$50.00–$55.00	0.3	8.34	50.72	0.2	50.88
$55.00–$65.15	0.6	9.17	58.83	0.1	61.51
	3.8		$39.74	2.3	$33.94

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which changes the measurement, recognition and disclosure standards for stock-based compensation. The Company, as allowable, had originally adopted SFAS No. 123 for disclosure purposes only. However, effective October 1, 2002, the Company began expensing options and stock appreciation rights granted after that date in accordance with the SFAS No. 123 recognition and measurement provisions as amended by SFAS No. 148.

The fair value of each award granted has been estimated on the grant date using the Black-Scholes option-pricing model based on the following weighted average assumptions for those granted in fiscal 2004, 2003 and 2002: (1) expected market-price volatility of 24.3%, 30.1% and 29.7%, respectively; (2) risk-free interest rates of 3.3%, 3.5% and 3.35%, respectively; and (3) expected life of options of 6.2 years for fiscal 2004 and 7 years for fiscal 2003 and 2002. Awards are generally granted with a ten-year term. The estimated weighted-average fair value per share of options and stock appreciation rights granted during fiscal 2004, 2003 and 2002 was $17.71, $19.35 and $15.83, respectively.

Stock Award Plans

3.89

ANALOGIC CORPORATION (JUL)

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

2 (In Part): Significant Accounting Policies

n) (In Part): New Accounting Pronouncements

In December 2004, FASB issued a revision to Financial Accounting Standards No. 123 ("FAS 123R"). FAS 123R is focused primarily on the accounting for transactions in which a company obtains employee services in exchange for stock options or share–based payments. The Company grants stock options to their employees and discloses the pro forma effect of compensation expense for these stock options. Under FAS 123R, the Company will be required to record this compensation expense in the Company's results of operations. FAS 123R is effective for the beginning of the first fiscal reporting period that begins after June 15, 2005. The adoption of FAS 123R will have a material effect on the Company's financial position and results of operations.

q) Stock-Based Compensation

The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure, and amendment of FASB Statement No. 123". SFAS 148 amends Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and also amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the methods of accounting for stock-based employee compensation and the effect of the method used on reported results.

As permitted by SFAS 148 and SFAS 123, the Company continues to apply the accounting provisions of the Accounting Principle Board ("APB") No. 25, and related interpretations, with regard to the measurement of compensation cost for options granted under the Company's equity compensation plans.

As permitted under current accounting standards, no compensation cost was recognized in the Consolidated Statements of Income for the Company's stock option plans as they were all issued at fair market value. Had compensation cost for the Company's stock-based compensation plans been recorded and applied in accordance with SFAS 123, Accounting for Stock-Based Compensation, and recognized ratably over the options' vesting periods, the Company's proforma information would have been as follows:

	2004	2003	2002
Net income, as reported	$ 8,354	$49,531	$ 2,655
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	1,366	937	836
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(4,029)	(3,724)	(3,380)
Pro forma net income	$ 5,691	$46,744	$ 111
Earnings per share:			
Basic, as reported	$ 0.62	$ 3.74	$ 0.20
Basic, pro forma	0.42	3.53	0.01
Diluted, as reported	$ 0.62	$ 3.70	$ 0.20
Diluted, pro forma	0.42	3.49	0.01

14 (In Part): Stock Option and Stock Bonus Plans

At July 31, 2004, the Company had two key employee stock option plans (one of which has lapsed as to the granting of options), two key employee stock bonus plans, two non-employee director stock option plans (one of which has lapsed as to the granting of options), and one employee stock purchase plan.

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Under the Company's key employee stock bonus plans, common stock may be granted to key employees under terms and conditions as determined by the Board of Directors. Generally, participants under the stock bonus plans may not dispose or otherwise transfer stock granted for three years from date of grant. Stock granted under these plans generally vest in four equal installments beginning in the third year from the date of grant. Upon issuance of stock under the plans, unearned compensation equivalent to the market value at the date of grant is charged to stockholders' equity and subsequently amortized over the periods during which the restrictions lapse (up to six years). Shares granted under the Company's key employee stock bonus plan were 75,666 at a weighted average fair market value of $41.88 per share in fiscal 2004; 65,834 shares at a weighted average fair market value of $47.70 per share in fiscal 2003; and 56,500 shares at a weighted average fair market value of $41.57 per share in fiscal 2002. Amortization of unearned compensation of $1,652, and $1,476 and $1,054 was recorded in fiscal 2004, 2003 and 2002, respectively.

At July 31, 2004, 951,596 shares were reserved for grant under the above stock option, bonus and purchase plans.

3.90

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

Our Company currently sponsors stock option plans and restricted stock award plans. Refer to Note 13. Effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Our Company selected the modified prospective method of adoption described in SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." The fair values of the stock awards are determined using a single estimated expected life. The compensation expense is recognized on a straight-line basis over the vesting period. The total stock-based compensation expense, net of related tax effects, was $254 million in 2004, $308 million in 2003 and $267 million in 2002. These amounts represent the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date.

New Accounting Standards (In Part)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) supercedes 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. 123(R) is similar to the approach described in SFAS No. 123. SFAS No. 123(R) must be adopted by our Company by the third quarter of 2005. Currently, our Company uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and is evaluating option valuation models, including the Black-Scholes-Merton formula, to determine which model the Company will utilize upon adoption of SFAS No. 123(R). Our Company plans to adopt SFAS No. 123(R) using the modified–prospective method. We do not anticipate that adoption of SFAS No. 123(R) will have a material impact on our Company's stock-based compensation expense. However, our equity investees are also required to adopt SFAS No. 123(R) beginning no later than the third quarter of 2005. Our proportionate share of the stock-based compensation expense resulting from the adoption of SFAS No. 123(R) by our equity investees will be recognized as a reduction to equity income.

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

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

In accordance with the provisions of SFAS No. 123 and SFAS No. 148, $345 million, $422 million and $365 million were recorded for total stock-based compensation expense in 2004, 2003 and 2002, respectively. The $345 million and $365 million recorded in 2004 and 2002, respectively, were recorded in selling, general and administrative expenses. Of the $422 million recorded in 2003, $407 million was recorded in selling, general and administrative expenses and $15 million was recorded in other operating charges.

Restricted Stock Award Plans

Under the amended 1989 Restricted Stock Award Plan and the amended 1983 Restricted Stock Award Plan (the "Restricted Stock Award Plans"), 40 million and 24 million shares of restricted common stock, respectively, were originally available to be granted to certain officers and key employees of our Company.

On December 31, 2004, 31 million shares remain available for grant under the Restricted Stock Award Plans. Participants are entitled to vote and receive dividends on the shares and, under the 1983 Restricted Stock Award Plan, participants are reimbursed by our Company for income taxes imposed on the award, but not for taxes generated by the reimbursement payment. The shares are subject to certain transfer restrictions and may be forfeited if a participant leaves our Company for reasons other than retirement, disability or death, absent a change in control of our Company.

The following awards were outstanding as of December 31, 2004:

- 513,700 shares of restricted stock in which the restrictions lapse upon the achievement of continued employment over a specified period of time (time-based restricted stock awards);
- 713,000 shares of performance-based restricted stock in which restrictions lapse upon the achievement of specific performance goals over a specified performance period. An additional 125,000 shares were promised, based upon achievement of relevant performance criteria, for employees based outside of the United States; and
- 1,583,447 performance share unit awards which could result in a future grant of restricted stock after the achievement of specific performance goals over a specified performance period. Such awards are subject to adjustment based on the final performance relative to the goals, resulting in a minimum grant of no shares and a maximum grant of 2,339,171 shares.

Time-Based Restricted Stock Awards

The following table summarizes information about time-based restricted stock awards:

	Number of Shares		
	2004	2003	2002
Outstanding on January 1,	1,224,900	1,506,485	1,492,985
Granted(1)	140,000	—	30,000
Released	(296,800)	(254,585)	(14,000)
Cancelled/forfeited	(554,400)	(27,000)	(2,500)
Outstanding on December 31,	513,700	1,224,900	1,506,485

(1) In 2004 and 2002, the Company granted time-based restricted stock awards with average per share fair values of $48.97 and $50.99, respectively.

Performance-Based Restricted Stock Awards

In 2001, shareowners approved an amendment to the 1989 Restricted Stock Award Plan to allow for the grant of performance-based awards. These awards are released only upon the achievement of specific measurable performance criteria. These awards pay dividends during the performance period. The majority of awards had specific earnings per share targets for achievement. If the earnings per share target is not met, the awards will be cancelled.

The following table summarizes information about performance-based restricted stock awards:

	Number of Shares		
	2004	2003	2002
Outstanding on January 1,	2,507,720	2,655,000	2,605,000
Granted(1)	—	52,720	50,000
Released	(110,000)	—	—
Cancelled/forfeited	(1,684,720)	(200,000)	—
Outstanding on December 31,	713,000(2)	2,507,720(2)	2,655,000(2)

(1) In 2003, 52,720 shares of three-year performance-based restricted stock were granted at an average fair value of $42.91 per share. In 2002, 50,000 shares of four-year performance-based restricted stock were granted at an average fair value of $46.88 per share.

(2) In 2002, the Company promised to grant an additional 50,000 shares at the end of three years and an additional 75,000 shares at the end of four years, at an average value of $46.88, if the Company achieved predefined performance targets over the respective measurement periods. These awards are similar to the performance-based restricted stock, including the payment of dividend equivalents, but were granted in this manner because the employees were situated outside of the United States. As of December 31, 2004, these grants were still outstanding.

The Company did not recognize compensation expense for the majority of these awards, as it is not probable the performance targets will be achieved.

Performance Share Unit Awards

In 2003, the Company modified its use of performance-based awards and established a program to grant performance share unit awards under the 1989 Restricted Stock Award Plan to executives. The number of performance share units earned shall be determined at the end of each performance period, generally three years, based on performance measurements determined by the Board of Directors and may result in an award of restricted stock for U.S. participants and certain international participants at that time. The restricted stock may be granted to other international participants shortly before the fifth anniversary of the original award. Restrictions on such stock lapse generally on the fifth anniversary of the original award date. Generally, performance share unit awards are subject to the performance criteria of compound annual growth in earnings per share over the performance period, as adjusted for certain items approved by the Compensation Committee of the Board of Directors ("adjusted EPS"). The purpose of these adjustments is to ensure a consistent year to year comparison of the specified performance measure.

Performance share unit Target Awards for the 2004–2006 and 2005–2007 performance periods require adjusted EPS growth in line with our Company's internal projections over the performance period. In the event adjusted EPS exceeds the target projection, additional shares up to the Maximum Award may be granted. In the event adjusted EPS falls below the target projection, a reduced number of shares as few as the Threshold Award may be granted. If adjusted EPS falls below the Threshold Award performance level, no shares will be granted. Of the outstanding granted performance share unit awards as of December 31, 2004, 741,985 and 769,462 awards are for the 2004–2006 and 2005–2007 performance periods, respectively. In addition, 72,000 performance share unit awards, with predefined qualitative performance measures other than adjusted EPS and other release criteria that differ from the program described above, are included in the performance share units granted in 2004.

The following table summarizes information about performance share unit awards:

	Number of Share Units	
	2004	2003
Outstanding on January 1,	798,931	—
Granted(1)	953,196	798,931
Cancelled/forfeited	(168,680)	—
Outstanding on December 31,	1,583,447	798,931
Threshold award	950,837	399,466
Target award	1,583,447	798,931
Maximum award	2,339,171	1,198,397

(1) In 2004 and 2003, the Company granted performance share unit awards with average fair values of $38.71 and $46.78, respectively.

The Company did not recognize any compensation expense in 2004 for awards from the 2004–2006 performance period, as it is not probable the Threshold Award performance level will be achieved.

Savings/Investment Plans

3.91

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Retirement Plans and Other Post Retirement Benefits

Retirement and Pension Plans (In Part)

The Company sponsors several retirement and pension plans covering eligible salaried and hourly employees. The plans generally provide benefits based on participants' years of service and/or compensation. The following is a brief description of the Company's retirement and pension plans.

The Company sponsors a 401(k) retirement and savings plan for eligible employees. Participants in the savings plan may contribute a portion of their compensation on a before-tax basis. The Company matches employee contributions on a dollar-for-dollar basis up to 6% of eligible compensation or a maximum of $1,200 per participant.

The Company's retirement and savings plan has a defined contribution retirement feature principally to cover U.S. salaried employees joining the Company after December 31, 1996. Under the retirement feature, the Company makes contributions for eligible employees based on a pre-established percentage of the covered employee's salary. Employees of certain of the Company's foreign operations participate in various local defined contribution plans.

The Company also has a defined contribution retirement plan for certain of its U.S. acquired businesses for the benefit of eligible employees. Company contributions are made for each participant up to a specified percentage, not to exceed 6% of the participant's base compensation.

3.92

SWIFT TRANSPORTATION CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22) Employee Benefit Plans

The Company maintains a 401(k) profit sharing plan for all employees who are 19 years of age or older and have completed six months of service. The Plan provides for a mandatory matching contribution equal to the amount of the employee's salary reduction, but not to exceed 1% of the employee's compensation. Also, the plan provides for a discretionary contribution not to exceed 4% of the employee's compensation, limited to the amount permitted under the Internal Revenue Code as deductible expenses. The Company may also make voluntary profit sharing contributions. Employees' rights to employer contributions vest after five years from their date of employment. The Company's expense totaled approximately $8.1 million, $8.2 million and $6.0 million for 2004, 2003 and 2002, respectively.

Stock Purchase Plans

3.93

KELLOGG COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stock Compensation

The 2002 Employee Stock Purchase Plan was approved by shareholders in 2002 and permits eligible employees to purchase Company stock at a discounted price. This plan allows for a maximum of 2.5 million shares of Company stock to be issued at a purchase price equal to the lesser of 85% of the fair market value of the stock on the first or last day of the quarterly purchase period. Total purchases through this plan for any employee are limited to a fair market value of $25,000 during any calendar year. Shares were purchased by employees under this plan as follows (approximate number of shares): 2004–214,000; 2003–248,000, 2002–119,000. Additionally, during 2002, a foreign subsidiary of the Company established a stock purchase plan for its employees. Subject to limitations, employee contributions to this plan are matched 1.1 by the Company. Under this plan, shares were granted by the Company to match an approximately equal number of shares purchased by employees as follows (approximate number of shares) 2004–82,000, 2003–94,000, 2002–82,000.

The Executive Stock Purchase Plan was established in 2002 to encourage and enable certain eligible employees of the Company to acquire Company stock, and to align more closely the interests of those individuals and the Company's shareholders. This plan allows for a maximum of 500,000 shares of Company stock to be issued. Under this plan, shares were granted by the Company to executives in lieu of cash bonuses as follows (approximate number of shares); 2004–8,000; 2003–11,000; 2002–14,000.

Deferred Compensation Plans

3.94

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Post-Employment Benefit Plans

Deferred Compensation Arrangements

The Company has a non-qualified deferred compensation plan, which allows certain highly-compensated employees the option to defer the receipt of a portion of their salary, bonus, profit sharing and non-qualified pension benefits. Employees who participate in the deferred compensation plan can select one of five distribution options offered by the plan. Payments are made after the employee terminates, based on their distribution election and plan balance. Participants can earn a return on their deferred compensation that is based on hypothetical investments in the same mutual funds and TI common stock offered in the Company's 401(k) plan. Changes in the market value of these participant investments are reflected as an adjustment to the deferred compensation liability of the Company with an offset to compensation expense.

As of December 31, 2004, the liability of the Company to the participants of the deferred compensation plan was $166 million and is recorded in noncurrent liabilities. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. The Company makes no contributions to the deferred compensation plan and so remains contingently liable to the participants. However, to serve as an economic hedge of the financial impact of changes in market values of these hypothetical investments, the Company invests in similar mutual funds and has entered into a forward purchase contract. Changes in the fair value of these mutual fund investments are recognized as an offset to compensation expense.

No shares of TI common stock are actually held for the account of participants. The Company has a forward purchase contract with a commercial bank to acquire 1,180,000 shares of the Company's common stock at a set fixed price at the end of the contract term or, at the Company's option, to settle in cash with the bank. The contract is intended to be an economic hedge to minimize the earnings impact from the effect of fluctuations in stock market prices on the portion of the Company's deferred compensation plan obligations that are denominated in TI stock. The forward contract is marked-to-market with any changes reflected in compensation expense. The contract is renewed on an annual basis.

In December 2004, as a result of certain provisions within the recently enacted Jobs Creation Act, the existing deferred compensation plan was closed to deferral elections for compensation earned after 2004.

Employee Stock Ownership Plans

3.95

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Employee Benefit Plans

Defined Contribution Plans (In Part)

Employee Stock Ownership Plan

Subject to collective bargaining agreements, all employees of Cabot and its participating subsidiaries in the U.S. are eligible to participate in the ESOP. Under the ESOP, which is 100% Company funded, Cabot allocates 742.6 shares of convertible preferred stock to participant accounts on a quarterly basis. The allocation is generally between 4% and 8% of a participant's eligible compensation. The allocation to each participant is based on the value of Cabot's preferred stock, the number of shares allocated as dividends, and the participant's total eligible compensation. If the amount of the participant allocation were to fall below 4%, Cabot would make an additional contribution to bring the total value to 4% for the participant. At September 30, 2004, 19,316 shares have been allocated to participants and 28,218 shares are unallocated. The ESOP is accounted for in compliance with SOP 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans".

In November 1988, Cabot placed 75,336 shares of its Series B ESOP Convertible Preferred Stock in the ESOP for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 146.4 shares of Cabot's common stock, subject to certain events and anti-dilution adjustment provisions, and carries voting rights on an "as converted" basis. The trustee for the ESOP has the right to cause Cabot to redeem shares sufficient to provide for periodic distributions to plan participants. Cabot has the option to redeem the shares for $1,000 per share, convert the shares to common stock, or a combination thereof.

The issued shares of Series B ESOP Convertible Preferred Stock receive preferential and cumulative quarterly dividends and are ranked as to dividends and liquidation prior to Cabot's Series A Junior Participating Preferred Stock and common stock. For purposes of calculating diluted earnings per share, the Series B ESOP Convertible Preferred Stock is assumed to be converted to common stock based on the conversion rate. At September 30, 2004, 7 million shares of Cabot's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

Cabot is the guarantor for the outstanding debt held by the ESOP as described in Note J. Cabot contributed $3 million in 2004 and $2 million in 2003 and 2002 to the ESOP to service the debt. Dividends on ESOP shares used for debt services were $4 million in 2004, 2003 and 2002. In addition, actual interest incurred on debt associated with the ESOP was $4 million in 2004, 2003 and 2002.

Cabot recognized expenses related to all defined contribution plans in the amounts of $8 million in 2004, $10 million in 2003 and $7 million in 2002.

Incentive Compensation Plans

3.96

ALLIED WASTE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Benefit Plans

Long-Term Incentive Plan

Effective January 1, 2003, the Management Development/Compensation Committee of the Board of Directors granted new long-term performance incentive awards to key members of management for the fiscal 2003–2004 and 2003–2005 performance periods. On February 17, 2005, incentive goals and awards were established for the 2005–2007 performance period. Such awards are intended to provide continuing emphasis on specified performance goals that the Management Development/Compensation Committee considers to be important contributors to long-term stockholder value.

The awards are payable only if we achieve specified performance goals. The performance goals set by the Management Development/Compensation Committee may be based upon the metrics reflecting one or more of the following business measurements: earnings, cash flow, revenues, financial return ratios, debt reduction, risk management, customer satisfaction, and total stockholder returns, any of which may be measured either in absolute terms or as compared with another company or companies or with prior periods. Under certain circumstances, the Management Development/Compensation Committee has the discretion to adjust the performance goals that are set for a performance period.

We record an accrual for the award to be paid in the period earned based on anticipated achievement of the performance goals. All awards are forfeited if the participant voluntarily terminates employment or is discharged for cause. Participants may be given the opportunity to elect to receive some or all of any payment in the form of shares of our common stock.

Profit Sharing Plans

3.97

HERMAN MILLER, INC. (MAY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Employee Benefit Plans

Profit Sharing and 401(k) Plan

Domestically, Herman Miller, Inc., has a trusteed profit sharing plan that includes substantially all employees. These employees are eligible to begin participating at the beginning of the quarter following their date of hire. The plan provides for discretionary contributions (payable in the company's common stock) of not more than 6.0 percent of employees' wages based on the company's financial performance. The cost of the plan charged against operations in fiscal 2004 and 2003 was $3.8 million and $0.9 million, respectively. The company did not recognize any expense in 2002 related to the profit sharing plan.

The company matches 50 percent of employee contributions to their 401(k) accounts up to 6.0 percent of their pay. The company's contributions were approximately $5.6 million, $5.8 million, and $6.6 million in fiscal 2004, 2003, and 2002, respectively.

Equity Participating Rights

3.98

BOWATER INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 (In Part): Stock-Based Compensation

Bowater has an Equity Participation Rights ("EPR") Plan that allows it to grant equity participation rights to its employees. These rights confer the right to receive cash based on the appreciation of Bowater's Common Stock price, but no right to acquire stock ownership. The rights have a vesting period of two years and, unless terminated earlier in accordance with their terms, expire 10 years after the grant date. The base price is the fair market value of Bowater Common Stock on the day of grant. The rights may be redeemed only for cash, and the amount paid to the employee at the time of exercise is the difference between the base price and the average high/low of Bowater's Common Stock on the day of settlement.

Information with respect to rights granted under the EPR Plan is as follows:

	2004		2003		2002	
	Number of Rights (000's)	Weighted Average Exercise Price	Number of Rights (000's)	Weighted Average Exercise Price	Number of Rights (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	2,387	$47	2,141	$48	1,959	$48
Granted during the year	0	0	257	41	295	47
Settled during the year	(45)	38	(5)	38	(84)	42
Canceled during the year	(74)	50	(6)	47	(29)	52
Outstanding at end of year	2,268	48	2,387	47	2,141	48
Exercisable at end of year	2,142	$48	1,986	$48	1,728	$48

Bowater-Halla Paper Co., Ltd. ("Halla"), our subsidiary located in South Korea, also has an EPR plan. The stock of Halla is not publicly traded. Therefore, the fair market value of the stock is determined annually by a third-party appraisal.

We record a liability for the Bowater and Halla EPRs during the vesting period and adjust this liability at each reporting period based on changes in the fair market value of the respective stocks. The liability amounts recorded at December 31, 2004 and 2003 are $2.7 million and $4.8 million, respectively. The charges (income) reflected in the Consolidated Statement of Operations pertaining to these rights and options were $(1.9) million, $3.9 million, $(3.2) million for the years 2004, 2003 and 2002, respectively.

DEPRECIATION EXPENSE

3.99 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."

3.100 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.

3.101 Table 3-14 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

3.102

TABLE 3-14: DEPRECIATION METHODS

	Number of Companies			
	2004	2003	2002	2001
Straight-line	586	580	579	579
Declining-balance	16	22	22	22
Sum-of-the-years'-digits	6	5	5	6
Accelerated method—not specified	32	41	44	49
Units-of-production	22	30	32	32
Group/composite	8	4	N/C*	N/C*
Other	—	—	7	9

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

Straight-Line Method

3.103

ALCOA INC. (DEC)

(In millions)	2004	2003	2002
Sales	$23,478	$21,092	$19,934
Cost of goods sold	18,623	16,754	15,928
Selling, general administrative, and other expenses	1,284	1,250	1,108
Research and development expenses	182	190	209
Provision for depreciation, depletion, and amortization (A and E)	1,204	1,175	1,096
Restructuring and other charges	(21)	(27)	414
Interest expense	270	314	350
Other income, net	(268)	(274)	(178)
	21,274	19,382	18,927
Income from continuing operations before taxes on income	$ 2,204	$ 1,710	$ 1,007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Properties, Plants, and Equipment

Properties, plants, and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, averaging 33 years for structures and approximately 16 years for machinery and equipment, as useful lives range between 5 and 25 years. Gains or losses from the sale of assets are included in other income. Repairs and maintenance are charged to expense as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. Depletion is taken over the periods during which the estimated mineral reserves are extracted.

H. Properties, Plants, and Equipment, at Cost

	2004	2003
Land and land rights, including mines	$ 462	$ 445
Structures	6,177	5,834
Machinery and equipment	18,004	17,436
	24,643	23,715
Less: accumulated depreciation and depletion	13,273	12,275
	11,370	11,440
Construction work in progress	1,222	1,060
	$12,592	$12,500

3.104

SKYWORKS SOLUTIONS, INC. (SEP)

Consolidated Statements of Cash Flows

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$22,412	$(451,416)	$(236,064)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	35,829	36,941	47,695
Amortization	3,043	4,386	12,929
Amortization of deferred financing costs	2,176	2,123	—
Contribution of common shares to savings and retirement plan	8,162	7,482	874
Gain on sales of assets	34	1,802	209
Deferred income taxes	3,394	351	(23,117)
Purchased in-process research and development	—	—	65,500
Asset impairments	10,853	425,407	111,817
Provision for losses (recoveries) on accounts receivable	377	1,156	(512)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method. Significant renewals and betterments are capitalized and replaced units are written off. Maintenance and repairs, as well as renewals of a minor amount, are expensed as incurred.

Estimated useful lives used for depreciation purposes are five to 30 years for buildings and improvements and three to 10 years for machinery and equipment. Leasehold improvements are depreciated over the lesser of the economic life or the life of the associated lease.

Note 5. Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	2004	2003
Land	$ 9,423	$ 9,423
Land and leasehold improvements	4,103	3,410
Buildings	50,305	58,340
Machinery and equipment	335,572	249,124
Construction in progress	5,391	33,739
	404,794	354,035
Accumulated depreciation and amortization	(261,260)	(232,480)
	$ 143,534	$ 121,556

Accelerated Methods

3.105

DOW JONES & COMPANY (DEC)

Consolidated Statements of Income

(In thousands)	2004	2003	2002
Revenues:			
Advertising	$ 946,325	$ 871,817	$ 877,681
Information services	328,708	286,863	281,220
Circulation and other	396,425	389,805	400,272
Total revenues	1,671,458	1,548,485	1,559,173
Expenses:			
News, production and technology	513,808	483,709	495,480
Selling, administrative and general	584,714	540,529	559,947
Newsprint	115,067	105,066	103,534
Print delivery costs	186,856	188,662	191,581
Depreciation and amortization	104,907	106,014	109,738
Restructuring charges and September 11-related items, net	3,932	(18,408)	23,810
Operating expenses	1,509,284	1,405,572	1,484,090
Operating income	$ 162,174	$ 142,913	$ 75,083

Consolidated Balance Sheets

(Dollars in thousands)	2004	2003
Total current assets	$ 253,914	$ 245,879
Investments in associated companies, at equity	88,911	89,230
Other investments	14,302	14,558
Plant, property and equipment, at cost:		
Land	22,166	22,173
Buildings and improvements	439,125	431,365
Equipment	1,227,249	1,243,122
Construction in progress	34,307	35,214
	1,722,847	1,731,874
Less, accumulated depreciation	1,062,823	1,042,590
Plant, property and equipment, net	660,024	689,284
Goodwill	245,558	153,320
Other intangible assets, less accumulated amortization of $8,111 in 2004 and $3,138 in 2003	88,887	70,124
Deferred income taxes	13,755	17,394
Other assets	14,852	24,365
Total assets	$1,380,203	$1,304,154

NOTES TO FINANCIAL STATEMENTS

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

Plant, Property and Equipment

Plant, property and equipment are recorded at cost and depreciation is computed using straight-line or declining-balance methods over the estimated useful lives: 10 to 40 years for building and improvements, 3 to 25 years for machinery and equipment and 3 to 5 years for software. The 25-year life is applicable to the Company's press equipment. The cost of leasehold improvements is amortized over the lesser of the useful lives or the terms of the respective leases. Upon retirement or sale, the cost of disposed assets and the related accumulated depreciation are deducted from the respective accounts and the resulting gain or loss is included in income. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the life of the related assets. Interest capitalized in 2004, 2003 and 2002 was insignificant. Maintenance and repairs are charged to expense as incurred. Major renewals, betterments and additions are capitalized.

3.106

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

Consolidated Statements of Cash Flows

(Dollars in millions)	2004	2003	2002
Operating activities			
Net income (loss)	$1,780	$ 973	$(1,103)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Cumulative effect of changes in accounting principles	—	29	2,944
Depreciation	1,124	1,355	1,297
Amortization of intangible assets	223	229	218
Separation charges—Textiles & Interiors	667	1,620	—
Goodwill impairment—Textiles & Interiors	—	295	—
Gain on sale of DuPont Pharmaceuticals	—	—	(25)
Other operating activities—net	774	334	833

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment (PP&E) is carried at cost and is depreciated using the straight-line method. PP&E placed in service prior to 1995 is depreciated under the sum-of-the-years' digits method or other substantially similar methods. Substantially all equipment and buildings are depreciated over useful lives ranging from 15 to 25 years. Capitalizable costs associated with computer software for internal use are amortized on a straight-line basis over 5 to 7 years. When assets are surrendered, retired, sold or otherwise disposed of, their gross carrying values and related accumulated depreciation are removed from the accounts and included in determining gain or loss on such disposals.

Maintenance and repairs are charged to operations; replacements and improvements are capitalized.

15. Property, Plant and Equipment

	2004	2003
Buildings	$ 3,765	$ 4,121
Equipment	18,853	18,540
Land	418	412
Construction	942	1,076
	$23,978	$24,149

Property, plant and equipment includes gross assets acquired under capital leases of $89 and $108 at December 31, 2004 and 2003, respectively; related amounts included in accumulated depreciation were $45 and $60 at December 31, 2004 and 2003, respectively. The company removed from its fixed asset records certain assets as a result of physical inventories in 2004.

Units-of-Production Method

3.107

NAVISTAR INTERNATIONAL CORPORATION (OCT)

Statement of Cash Flow

(Millions of dollars)	2004	2003	2002
Cash flow from operations			
Net income (loss)	$ 247	$(21)	$(538)
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:			
Depreciation and amortization	256	205	231
Deferred income taxes	50	(41)	(269)
Postretirement benefits funding less than (in excess of) expense	(158)	(11)	15
Postretirement benefits curtailment	(2)	(5)	157
Non-cash restructuring and other non-recurring charges	—	6	157
Non-cash charge related to discontinued operations	—	—	28
Gains on sales of receivables	(26)	(46)	(16)
Other net	(144)	(65)	—

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Property and Other Long-Lived Assets

Significant expenditures for replacement of equipment, tooling and pattern equipment and major rebuilding of machine tools are capitalized. Manufacturing production assets placed in service after November 1, 2001, are depreciated on a units-of-production basis. Prior to November 1, 2001, manufacturing production assets were depreciated on a straight-line basis over the estimated useful lives of the assets. The impact of the change in depreciation on the net loss in fiscal 2002 was not material. The estimated depreciable lives of manufacturing production assets range from five to 12 years. Non-production related assets are depreciated on a straight-line basis over the estimated useful lives of the assets, which average 35 years for buildings and improvements and 12 years for all other assets. Gains and losses on property disposals are included in other income and expense. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets and the projected, undiscounted cash flows of the operations in which the long-lived assets are deployed.

8. Property and Equipment

At October 31, property and equipment includes the following:

(Millions of dollars)	2004	2003
Land	$ 15	$ 17
Buildings, machinery and equipment at cost:		
Plants	1,944	1,789
Distribution	89	97
Construction in progress	135	143
Net investment in equipment subject to operating leases	174	206
Other	438	440
Total property	2,795	2,692
Less accumulated depreciation and amortization	(1,351)	(1,253)
Total property and equipment, net	$ 1,444	$ 1,439

Total property includes property under capitalized lease obligations of $16 million at both October 31, 2004 and 2003. Future minimum rentals on net investments in operating leases are: 2005–$47 million, 2006–$33 million, 2007–$20 million, 2008–$14 million, 2009–$8 million and 2010 and thereafter–$10 million. Capitalized interest for 2004, 2003 and 2002 was $6 million, $7 million and $14 million, respectively.

In 2003, the company made a non-cash investment in the Blue Diamond Truck joint venture of $133 million. This investment included the transfer of fixed assets totaling $148 million and net deferred tax liabilities of $15 million.

Composite Method

3.108

WALGREEN CO. (AUG)

Consolidated Statements of Cash Flows

	2004	2003	2002
Cash flows from operating activities			
Net earnings	$1,360.2	$1,175.7	$1,019.2
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	403.1	346.1	307.3
Deferred income taxes	72.2	58.9	22.9
Income tax savings from employee stock plans	50.3	24.4	56.8
Other	30.9	29.2	(8.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Major Accounting Policies (In Part)

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12½ to 39 years for land improvements, buildings and building improvements and 5 to 12½ years for equipment. Major repairs, which extend the useful life of an asset, are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of:

(In millions)	2004	2003
Land and land improvements		
Owned stores	$1,215.6	$1,129.4
Distribution centers	80.1	60.8
Other locations	40.8	29.5
Buildings and building improvements		
Owned stores	1,322.4	1,226.0
Leased stores (leasehold improvements only)	478.4	440.5
Distribution centers	415.6	429.6
Other locations	162.8	112.6
Equipment		
Stores	2,438.1	2,065.1
Distribution centers	623.9	582.8
Other locations	150.0	171.4
Capitalized system development costs	123.0	101.5
Capital lease properties	43.6	13.1
	7,094.3	6,362.3
Less: accumulated depreciation and amortization	1,647.9	1,422.3
	$5,446.4	$4,940.0

The company capitalizes application stage development costs for significant internally developed software projects, including "SIMS Plus," a strategic inventory management system, "Basic Department Management," a marketing system, and "PARS," an accounts receivable system. These costs are amortized over a five-year period. Amortization of these costs was $19.0 million in 2004, $19.4 million in 2003 and $19.5 million in 2002. Unamortized costs as of August 31, 2004 and 2003, were $76.6 million and $74.2 million, respectively.

Depletion

3.109

VULCAN MATERIALS COMPANY (DEC)

Consolidated Statements of Cash Flows

(Amounts in thousands)	2004	2003	2002
Operating activities			
Net earnings	$287,385	$194,952	$169,876
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion, accretion and amortization	245,050	277,091	267,676
Net (gain) loss on disposal of property, plant and equipment	(23,973)	(22,931)	4,418
Cumulative effect of accounting changes	—	18,811	20,537

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less allowances for accumulated depreciation, depletion and amortization. The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease.

Depreciation, Depletion, Accretion and Amortization

Depreciation is computed by the straight-line method at rates based on the estimated service lives (ranging from 3 to 30 years) of the various classes of assets, which include machinery and equipment, buildings and land improvements.

Cost depletion on depletable quarry land is computed by the unit-of-production method based on estimated recoverable units.

Accretion reflects the period-to-period increase in the carrying amount for the liability of asset retirement obligations. It is computed using the same credit-adjusted, risk-free rate used to initially measure the liability at fair value.

Leaseholds are amortized over varying periods not in excess of applicable lease terms.

Amortization of intangible assets subject to amortization is computed based on the estimated life of the intangible assets.

Depreciation, depletion and amortization expense for assets held for sale ceased October 2004 effective with our classification of the Chemicals business as discontinued operations. Depreciation, depletion, accretion and amortization expense for the years ended December 31 is outlined below (amounts in thousands):

	2004	2003	2002
Depreciation			
Continuing operations	$196,760	$203,041	$194,326
Discontinued operations	34,031	59,945	62,491
Total	$230,791	$262,986	$256,817
Depletion			
Continuing operations	$ 5,727	$ 5,729	$ 7,656
Discontinued operations	—	—	—
Total	$ 5,727	$ 5,729	$ 7,656
Accretion			
Continuing operations	$ 4,345	$ 4,106	$ —
Discontinued operations	1,030	1,024	—
Total	$ 5,375	$ 5,130	$ —
Amortization of leaseholds and capitalized leases			
Continuing operations	$ 297	$ 168	$ 53
Discontinued operations	—	—	—
Total	$ 297	$ 168	$ 53
Amortization of intangibles			
Continuing operations	$ 2,860	$ 3,078	$ 3,150
Discontinued operations	—	—	—
Total	$ 2,860	$ 3,078	$ 3,150
Total depreciation, depletion, accretion and amortization			
Continuing operations	$209,989	$216,122	$205,185
Discontinued operations	35,061	60,969	62,491
Total	$245,050	$277,091	$267,676

Note 4 (In Part): Property, Plant and Equipment

Balances of major classes of assets and allowances for depreciation, depletion and amortization at December 31 are as follows (in thousands of dollars):

	2004	2003	2002
Land and land improvements	$ 670,608	$ 681,073	$ 693,891
Buildings	81,987	118,369	126,888
Machinery and equipment	2,376,820	3,174,693	3,197,646
Leaseholds	5,650	6,565	6,555
Deferred asset retirement costs	74,996	76,471	—
Construction in progress	54,132	58,475	73,563
Total	3,264,193	4,115,646	4,098,543
Less allowances for depreciation, depletion and amortization	1,727,700	2,222,998	2,122,490
Property, plant and equipment, net	$1,536,493	$1,892,648	$1,976,053

INCOME TAXES

PRESENTATION OF INCOME TAXES

3.110 SFAS No. 109, *Accounting for Income Taxes*, is the authoritative pronouncement on accounting for and reporting income tax liabilities and expense. Paragraphs 41–49 of *SFAS No. 109* set forth standards for financial presentation and disclosure of income tax liabilities and expense.

3.111 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.

3.112

TABLE 3-15: INCOME TAX EXPENSE

	2004	**2003**	**2002**	**2001**
Descriptive Terms				
Income taxes	588	585	583	575
Federal income taxes	8	10	11	10
United States (U.S.) income taxes	1	1	1	1
	597	**596**	**595**	**586**
Other or no current year amount	3	4	5	14
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

3.113

BAKER HUGHES INCORPORATED (DEC)

(In millions)	2004	2003	2002
Revenues	$6,103.8	$5,252.4	$4,860.2
Costs and expenses:			
Cost of revenues	4,367.4	3,820.9	3,490.1
Selling, general and administrative	915.4	827.0	807.7
Impairment of investment in affiliate	—	45.3	—
Reversal of restructuring charge	—	(1.1)	—
Total	5,282.8	4,692.1	4,297.8
Operating income	821.0	560.3	562.4
Equity in income (loss) of affiliates	36.3	(137.8)	(69.7)
Interest expense	(83.6)	(103.1)	(111.1)
Interest income	6.8	5.3	5.2
Income from continuing operations before income taxes	780.5	324.7	386.8
Income taxes	(252.3)	(146.8)	(159.0)
Income from continuing operations	$ 528.2	$ 177.9	$ 227.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

We use the liability method for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred income taxes are provided for the estimated income tax effect of temporary differences between financial and tax bases in assets and liabilities. Deferred tax assets are also provided for certain tax credit carryforwards. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We intend to indefinitely reinvest certain earnings of our foreign subsidiaries in operations outside the U.S., and accordingly, we have not provided for U.S. income taxes on such earnings. We do provide for the U.S. and additional non-U.S. taxes on earnings anticipated to be repatriated from our non-U.S. subsidiaries.

We operate in more than 90 countries under many legal forms. As a result, we are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Our operations in these different jurisdictions are taxed on various bases: actual income before taxes, deemed profits (which are generally determined using a percentage of revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact upon the amount of income taxes that we provide during any given year.

Our tax filings for various periods are subjected to audit by tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are resolved with the authorities or potentially through the courts. We believe that these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. We have received tax assessments from various taxing authorities and are currently at varying stages of appeals and/or litigation regarding these matters.

We have provided for the amounts we believe will ultimately result from these proceedings. We believe we have substantial defenses to the questions being raised and will pursue all legal remedies should an unfavorable outcome result. However, resolution of these matters involves uncertainties and there are no assurances that the outcomes will be favorable.

Note 5. Income Taxes

The provision for income taxes on income from continuing operations is comprised of the following for the years ended December 31:

	2004	2003	2002
Current:			
United States	$ 53.4	$ 2.8	$ 7.3
Foreign	150.5	164.1	172.1
Total current	203.9	166.9	179.4
Deferred:			
United States	45.4	(38.1)	19.5
Foreign	3.0	18.0	(39.9)
Total deferred	48.4	(20.1)	(20.4)
Provision for income taxes	$252.3	$146.8	$159.0

The geographic sources of income from continuing operations before income taxes are as follows for the years ended December 31:

	2004	2003	2002
United States	$218.5	$(134.1)	$ 53.3
Foreign	562.0	458.8	333.5
Income from continuing operations before income taxes	$780.5	$ 324.7	$386.8

Tax benefits of $12.5 million, $1.5 million and $1.4 million associated with the exercise of employee stock options were allocated to equity and recorded in capital in excess of par value in the years ended December 31, 2004, 2003 and 2002, respectively.

The provision for income taxes differs from the amount computed by applying the U.S. statutory income tax rate to income from continuing operations before income taxes for the reasons set forth below for the years ended December 31:

	2004	2003	2002
Statutory income tax at 35%	$273.2	$113.6	$135.4
Effect of WesternGeco operations	1.8	36.3	40.2
Effect of foreign operations	(28.3)	(5.8)	(14.4)
Net tax charge related to foreign losses	4.0	4.9	10.0
State income taxes—net of U.S. tax benefit	3.4	4.0	2.7
IRS audit agreement and refund claims	—	(3.3)	(14.4)
Other—net	(1.8)	(2.9)	(0.5)
Provision for income taxes	$252.3	$146.8	$159.0

During 2004, we recognized an incremental effect of $1.8 million of additional taxes attributable to our portion of the operations of WesternGeco, primarily as a result of increased income in the U.S. During 2003, we recognized an incremental effect of $36.3 million of additional taxes related to our investment in WesternGeco. Of this amount, $15.9 million related to the reduction in the carrying value of our equity investment in WesternGeco, for which there was no tax benefit. The remaining $20.4 million arose from operations of the venture due to: (i) the venture being taxes in certain foreign jurisdictions based on a deemed profit basis, which is a percentage of revenues rather than profits, and (ii) unbenefitted foreign losses of the venture, which are operating losses and impairment and restructuring charges in certain foreign jurisdictions where there was no current tax benefit and where a deferred tax asset was not recorded due to the uncertainty of realization. In 2002, the amount of additional taxes resulting from operations of the venture was $40.2 million.

In 2003, we recognized a $3.3 million benefit as the result of refund claims filed in the U.S. In 2002, a $14.4 million benefit was recognized as the result of the settlement of an Internal Revenue Service examination related to our September 30, 1996 through September 30, 1998 tax years.

We have received tax assessments from various taxing authorities and are currently at varying stages of appeals and/or litigation regarding these matters. We have provided for the amounts we believe will ultimately result from these proceedings. We believe we have substantial defenses to the questions being raised and will pursue all legal remedies should an unfavorable outcome result. While we have provided for the taxes that we believe will ultimately be payable as a result of these assessments, the aggregate assessments are approximately $34.0 million in excess of the taxes provided for in our consolidated financial statements.

In addition to the aforementioned assessments that have been received from various taxing authorities, we provide for taxes in certain situations where assessments have not been received. In those situations, we consider it probable that the taxes ultimately payable will exceed those amounts reflected in filed tax returns; accordingly, taxes are provided in those situations under the guidance in SFAS No. 5, *Accounting for Contingencies*, and are included in both income taxes in current liabilities and in deferred income taxes and other tax liabilities in the consolidated balance sheets.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. The tax effects of our temporary differences and carryforwards are as follows at December 31:

	2004	2003
Deferred tax assets:		
Receivables	$ 9.7	$ 15.4
Inventory	110.6	122.8
Employee benefits	25.0	27.3
Other accrued expenses	26.5	45.1
Operating loss carryforwards	49.1	77.3
Tax credit carryforwards	76.9	79.8
Capitalized research and development costs	74.1	87.8
Other	47.1	17.9
Subtotal	419.0	473.4
Valuation allowances	(36.7)	(54.1)
Total	382.3	419.3
Deferred tax liabilities:		
Property	—	40.1
Goodwill	105.4	89.9
Undistributed earnings of foreign subsidiaries	34.7	19.6
Other	20.1	18.6
Total	160.2	168.2
Net deferred tax asset	$222.1	$251.1

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We have provided a valuation allowance for operating loss carryforwards in certain non-U.S. jurisdictions where our operations have decreased, currently ceased or we have withdrawn entirely.

Provision has been made for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of our foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries above the amount already provided to be indefinitely reinvested, as we have no intention to repatriate these earnings. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend; however, it is not practicable to estimate the additional amount of taxes payable.

At December 31, 2004, we had approximately $22.2 million of foreign tax credits and $35.1 million of general business credits available to offset future payments of federal income taxes, expiring in varying amounts between 2010 and 2025. Our $19.6 million alternative minimum tax credits may be carried forward indefinitely under current U.S. law. The operating loss carryforwards without a valuation allowance will expire in varying amounts over the next twenty years.

3.114

THE BOEING COMPANY (DEC)

(Dollars in millions)	2004	2003	2002
Sales of products	$ 43,960	$ 41,389	$ 46,317
Sales of services	8,497	8,867	7,514
Total revenues	52,457	50,256	53,831
Cost of products	(37,443)	(35,100)	(39,149)
Cost of services	(7,232)	(8,692)	(6,336)
Boeing Capital Corporation interest expense	(350)	(358)	(319)
Total costs and expenses	(45,025)	(44,150)	(45,804)
	7,432	6,106	8,027
Income/(loss)from operating investments, net	91	28	(49)
General and administrative expense	(3,081)	(2,744)	(2,512)
Research and development expense	(1,879)	(1,651)	(1,639)
Gain on dispositions, net	23	7	44
Share-based plans expense	(576)	(456)	(447)
Goodwill impairment	(3)	(913)	—
Impact of September 11, 2001, recoveries	—	21	2
Earnings from continuing operations	2,007	398	3,426
Other income, net	288	460	37
Interest and debt expense	(335)	(358)	(320)
Earnings before income taxes	1,960	500	3,143
Income tax (expense)/benefit	(140)	185	(847)
Net earnings from continuing operations	$ 1,820	$ 685	$ 2,296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Provisions for federal, state and foreign income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for income tax when, despite the belief that our tax positions are fully supportable, there remain certain positions that are probable to be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Note 6: Income Taxes

The (benefit)/expense for taxes on income consisted of the following:

	2004	2003	2002
U.S. Federal			
Taxes paid or currently payable	$(435)	$(1,923)	$432
Change in deferred taxes	787	1,707	449
	352	(216)	881
State			
Taxes paid or currently payable	(58)	(33)	(79)
Change in deferred taxes	(154)	64	45
	(212)	31	(34)
Income tax (benefit)/expense	$ 140	$ (185)	$847

The following is a reconciliation of the tax derived by applying the U.S. federal statutory rate of 35% to the earnings before income taxes and comparing that to the recorded income tax (benefit)/expense:

	2004	2003	2002
U.S. federal statutory tax	$ 686	$ 175	$1,100
Foreign Sales Corporation/Extraterritorial Income tax benefit	(168)	(115)	(195)
Research benefit	(28)	(37)	(28)
Non-deductibility of goodwill	2	229	—
Federal audit settlement	(147)	(456)	—
Charitable contributions	(9)	(13)	(15)
Tax-deductible dividends	(17)	(14)	—
State income tax provision, net of effect on U.S. federal tax	(138)	21	(22)
Other provision adjustments	(41)	25	7
Income tax (benefit)/expense	$ 140	$(185)	$ 847

The 2004 effective income tax rate of 7.1% differed from the federal statutory tax rate of 35%, due to Foreign Sales Corporation (FSC) and Extraterritorial Income (ETI) exclusion tax benefits, tax credits, state income taxes, tax benefits from a settlement with the Internal Revenue Service (IRS) of the years 1986–1997, tax benefits associated with state tax audit settlements, and other provision adjustments.

The effective income tax rates for 2003 and 2002 also vary from the federal statutory tax rate due to FSC and ETI benefits, tax credits, state income taxes, and in 2003, favorable resolution of IRS audit issues and the non-deductibility for tax purposes of certain portions of goodwill impairment charges.

The components of net deferred tax assets at December 31 were as follows:

	2004	2003
Deferred tax assets	$ 8,583	$10,084
Deferred tax liabilities	(7,516)	(7,110)
Valuation allowance	(12)	(16)
Net deferred tax assets	$ 1,055	$ 2,958

Significant components of our deferred tax assets, net of deferred tax liabilities, at December 31 were as follows:

	2004	2003
Other comprehensive income (net of valuation allowances of $12 and $16)	$ 1,150	$ 2,415
Retiree health care accruals	2,212	2,073
Inventory and long-term contract methods of income recognition	1,188	1,693
Other employee benefits accruals	1,276	842
In-process research and development related to acquisitions	142	156
Net operating loss, credit, and charitable contribution carryovers	587	118
Pension benefit accruals	(4,332)	(2,826)
Customer and commercial financing	(1,168)	(1,513)
Net deferred tax assets	$ 1,055	$ 2,958

Of the deferred tax asset for net operating loss, credit, and charitable contribution carryovers, $435 expires in years ending from December 31, 2005 through December 31, 2024 and $152 may be carried over indefinitely.

Deferred U.S. income taxes and foreign withholding taxes are not provided on the undistributed cumulative earnings of foreign subsidiaries because such earnings are considered to be permanently reinvested in those operations. It is not practicable to estimate the amount of additional taxes that may be payable upon distribution.

Within the Consolidated Statements of Operations is Other income/expense which consists primarily of interest income received from tax refunds.

IRS Audit Overview

IRS examinations have been completed through 1997 and income taxes have been settled with the IRS for all years through 1996 and for McDonnell Douglas Corporation for all years through 1992. We have filed appeals with the IRS for 1993 through 1997 for McDonnell Douglas Corporation.

During 2004 we received $896 relating to federal income tax refunds for which estimated accruals had primarily been recorded in prior periods. Of this amount, $681 related to the 2003 federal tax return. $104 related to a settlement of the 1996 tax year and the 1997 partial tax year for McDonnell Douglas Corporation, $69 related to a settlement of the 1983 through 1987 tax years, and $1 related to the 1985 tax year. The balance of $41 relates to a partial settlement of the 1986 through 1997 Boeing Company audit and was recorded in the year ended December 31, 2004. In addition, $217 of interest income associated with the tax refunds was received and recorded in the Consolidated Statements of Operations. Of the $217 of interest income received, $40 was recorded in 2003 and the balance was recorded during 2004. In addition to the cash received above, we are awaiting the receipt of an additional $124 of federal net income tax refund and $42 of interest for the settlement of the years 1986 through 1997 which have already been accrued during the year ended December 31, 2004.

Net income tax (refunds)/payments were $(903), $(507) and $(49) in 2004, 2003 and 2002, respectively.

Tax Accruals

We are subject to income taxes in the U.S. and numerous foreign jurisdictions.

Amounts accrued for the potential tax assessments primarily recorded in current tax liabilities total $1,678 and $1,507 at December 31, 2004 and 2003, respectively. Accruals relate to tax issues for U.S. federal, domestic state, and taxation of foreign earnings as follows:

- The accruals associated with U.S. federal tax issues such as the tax benefits from the FSC and ETI tax rules, the amount of research and development tax credits claimed, deductions associated with employee benefit plans, U.S. taxation of foreign earnings, and valuation issues regarding charitable contributions claimed were $1,412 at December 31, 2004, and $1,229 at December 31, 2003.
- The accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions and the amount of state tax credits claimed were $214 at December 31, 2004, and $226 at December 31, 2003, net of federal benefit.
- The accruals associated with taxation of foreign earnings were $52 at December 31, 2004, and $52 at December 31, 2003.

Legislative Update

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase-out (except for certain preexisting binding contracts) of the existing ETI exclusion tax benefit for foreign sales which the World Trade Organization (WTO) ruled was an illegal export subsidy. The European Union (EU) believes that the Act fails to adequately repeal the illegal export subsidies because of the transitional provisions and has asked the WTO to review whether these transitional provisions are in compliance with their prior ruling. It is not possible to predict what impact this issue will have on future earnings pending the final resolution of this matter. Additionally, the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations.

On December 21, 2004, FASB Staff Position (FSP) No. FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, was issued. FSP No. FAS 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with SFAS No. 109, *Accounting for Income Taxes*. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return beginning in 2005. As regulations are still pending, we have been unable to quantify this impact.

On December 21, 2004, FSP No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, was issued. FSP No. FAS 109-2 provides companies additional time, beyond the financial reporting period during which the Act took effect, to evaluate the Act's impact on a company's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. FSP No. FAS 109-2 was effective upon issuance. As of December 31, 2004, management had not decided on whether, and to what extent we might repatriate foreign earnings under the Act, and accordingly, the financial statements do not reflect any provisions for taxes on unremitted foreign earnings. Based on our analysis of the Act, although not yet finalized, it is possible that under the repatriation provision of the Act we may repatriate some amount of earnings between $0 to $350 with the respective tax liability ranging from $0 to $26. We expect to be in a position to finalize our assessment by June 30, 2005.

3.115

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands)	2004	2003	2002
Net sales	$1,947,364	$1,657,633	$1,529,300
Cost of goods sold	1,507,492	1,329,554	1,259,336
Gross profit on sales	439,872	328,079	269,964
Engineering, selling, general and administrative expenses	205,663	178,157	153,712
Income from operations	234,209	149,922	116,252
Interest expense	(37,665)	(40,389)	(44,433)
Other income, net	8,460	9,045	8,691
Income before provision for income taxes	205,004	118,578	80,510
Provision for income taxes	68,890	37,940	27,390
Net income	$ 136,114	$ 80,638	$ 53,120

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes

The provision for income taxes includes federal, state and foreign income taxes currently payable and those deferred because of temporary differences between the financial statement and tax basis of assets and liabilities. The deferred income tax asset represents temporary differences relating to current assets and current liabilities, and the deferred income tax liability represents temporary differences relating to noncurrent assets and liabilities.

4) Income Taxes

The provision for income taxes consists of the following (in thousands):

	2004	2003	2002
Current			
Federal	$46,506	$11,404	$ 4,950
State	8,039	291	587
Foreign	1,545	1,967	1,567
	56,090	13,662	7,104
Deferred	12,800	24,278	20,286
	$ 68,890	$ 37,940	$ 27,390

A reconciliation of the U.S. statutory tax rates to the effective tax rates follows:

	2004	2003	2002
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	3.0%	1.8%	2.4%
Foreign tax benefits	(0.9%)	(3.3%)	(1.2%)
Resolution of prior period tax matters	(2.2%)	—	—
Other	(1.3%)	(1.5%)	(2.2%)
Effective tax rate	33.6%	32.0%	34.0%

The components of deferred income taxes were as follows (in thousands):

	2004	2003
Deferred income tax asset:		
Difference between book and tax methods applied to		
Inventory	$13,443	$13,145
Payroll related accruals	2,627	2,483
Warranty reserves	16,768	18,140
Other accrued liabilities	16,395	15,950
Miscellaneous	(1,610)	(1,044)
	$47,623	$48,674
Deferred income tax liability:		
Difference between book and tax methods applied to		
Pension cost	$(31,875)	$(28,862)
Accumulated depreciation	(59,271)	(58,806)
Accrued employee benefits	12,333	11,545
Postretirement health care obligation	14,917	18,745
Deferred revenue on sale of plant & equipment	5,822	5,914
Miscellaneous	(12,380)	(6,453)
	$(70,454)	$(57,917)

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. These undistributed earnings amounted to approximately $10.5 million at June 27, 2004. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

Credit Provision

3.116

UNIFI, INC. (JUN)

(Amounts in thousands)	2004	2003	2002
Net sales	$746,455	$849,116	$914,716
Cost of sales	708,009	777,812	840,164
Selling, general and administrative expense	50,670	53,676	49,964
Provision for bad debts	2,650	3,936	6,285
Interest expense	18,705	19,900	22,956
Interest income	(2,701)	(1,883)	(2,559)
Other (income) expense, net	(2,791)	(1,350)	3,239
Equity in losses (earnings) of unconsolidated affiliates	7,076	(10,627)	1,704
Minority interest (income) expense	(6,430)	4,769	—
Restructuring charges	27,716	16,893	—
Arbitration costs and expenses	182	19,185	1,129
Alliance plant closure costs (recovery)	(206)	(3,486)	—
Asset impairments and write downs	38,703	—	—
Loss before income taxes and cumulative effect of accounting change	(95,128)	(29,709)	(8,166)
Benefit for income taxes	(25,335)	(2,532)	(2,092)
Loss before cumulative effect of accounting change	$ (69,793)	$ (27,177)	$ (6,074)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies and Financial Statement Information

Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. Income tax expense is computed on the basis of transactions entering into pretax operating results. Deferred income taxes have been provided for the tax effect of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. Income taxes have not been provided for the undistributed earnings of certain foreign subsidiaries as such earnings are deemed to be permanently invested.

4. Income Taxes

Income before income taxes and cumulative effect of accounting change is as follows:

(Amounts in thousands)	2004	2003	2002
Income (loss) before income taxes and cumulative effect of accounting change.			
United States	$(81,199)	$(30,836)	$(9,339)
Foreign	(13,929)	1,127	1,173
	$(95,128)	$(29,709)	$(8,166)

The provision of income taxes for fiscal 2004, 2003 and 2002 consists of the following:

(Amounts in thousands)	2004	2003	2002
Currently payable (recoverable):			
Federal	$ 669	$ (746)	$(6,290)
State	(675)	790	330
Foreign	2,800	2,122	747
Total current	2,794	2,166	(5,213)
Deferred:			
Federal	(28,916)	(4,219)	3,395
State	424	(846)	(274)
Foreign	363	367	—
Total deferred	(28,129)	(4,698)	3,121
Income tax benefits before cumulative effect of accounting change (2002)	$(25,335)	$(2,532)	$(2,092)

Income tax benefits were 26.6%, 8.5% and 25.6% of pretax losses in fiscal 2004, 2003 and 2002, respectively. A reconciliation of the provision for income tax benefits (before the cumulative effect of accounting change in 2002) with the amounts obtained by applying the federal statutory tax rate is as follows:

	2004	2003	2002
Federal statutory tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal tax benefit	(2.6)	0.5	1.4
State tax credits, net of federal tax benefit	—	—	(1.8)
Loss of state, net operating loss carry forward	—	5.1	—
Foreign taxes less than domestic rate	(0.9)	(6.1)	(11.4)
Foreign tax benefit of losses less than domestic rate	9.4	13.2	15.5
Increase in valuation allowance	3.5	9.1	—
Nondeductible expenses and other	(1.0)	4.7	5.7
Effective tax rate	(26.6)%	(8.5)%	(25.6)%

The deferred income taxes reflect the net tax effects of temporary differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of June 27, 2004 and June 29, 2003 were as follows:

(Amounts in thousands)	2004	2003
Deferred tax liabilities:		
Property, plant and equipment	$ 70,872	$ 95,780
Investments in equity affiliates	17,942	18,081
Other	247	1,636
Total deferred tax liabilities	89,061	115,497
Deferred tax assets:		
State tax credits	15,505	16,048
Accrued liabilities and valuation reserves	12,189	14,367
Net operating loss carryforwards	6,477	2,458
Intangible assets	5,416	2,244
Other items	2,927	3,066
Total gross deferred tax assets	42,514	38,183
Valuation allowance	(13,137)	(10,500)
Net deferred tax assets	29,377	27,683
Net deferred tax liability	$ 59,684	$ 87,814

As of June 27, 2004, the Company has available for income tax purposes approximately $17.8 million in federal net operating loss carryforwards that may be used to offset future taxable income. The carryforwards expire in fiscal year 2023 and 2024. The Company also has available for income tax purposes approximately $23.9 million in North Carolina investment tax credits, for which the Company has established a valuation allowance in the amount of $12.3 million. The Company also established a valuation allowance of $0.8 million relating to a long-term capital loss carryforward that expires in fiscal 2006. The credits expire as set forth in the table below:

Year Ended June 27, 2004	2005	2006	2007	2008	2009	Thereafter
Expiration amount	$5,490	$1,913	$3,861	$3,760	$3,762	$5,069

For the years ended June 27, 2004 and June 29, 2003, the valuation allowance increased $2.6 million and $2.7 million, respectively. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, available taxes in the carryback periods, projected future taxable income and tax planning strategies in making this assessment.

No Provision

3.117

ALLEGHENY TECHNOLOGIES INCORPORATED (DEC)

(In millions)	2004	2003	2002
Sales	$2,733.0	$1,937.4	$1,907.8
Costs and expenses:			
Cost of sales	2,488.1	1,873.6	1,744.5
Selling and administrative expenses	233.3	248.8	188.3
Curtailment (gain), net of restructuring costs	(40.4)	62.4	42.8
Income (loss) before interest, other income (expense) and income taxes	52.0	(247.4)	(67.8)
Interest expense, net	(35.5)	(27.7)	(34.3)
Other income (expense), net	3.3	(5.1)	(1.7)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	19.8	(280.2)	(103.8)
Income tax provision (benefit)	—	33.1	(38.0)
Net income (loss) before cumulative effect of change in accounting principle	$ 19.8	$ (313.3)	$ (65.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

The provision for, or benefit from, income taxes includes deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. The Company evaluates, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused.

Note 8. Income Taxes

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), in the 2003 fourth quarter, the Company recorded a $138.5 million charge as part of its income tax provision to establish a valuation allowance for the majority of its Federal net deferred tax assets in recognitions of uncertainty regarding full realization. In 2004, the Company provided an additional $10.1 million valuation allowance to reflect the continued uncertainty regarding full realization of these tax attributes, which was included in determining the 2004 effective tax rate. No valuation allowance was required on $53.0 million of net deferred tax assets based upon the Company's ability to utilize these assets within the carryback, carryforward period, including consideration of tax planning strategies that the Company would undertake to prevent an operating loss or tax credit carryforward from expiring unutilized. The Company intends to maintain a valuation allowance on the net deferred tax assets until a realization event occurs to support reversal of all or a portion of the reserve.

Income tax provision (benefit) was as follows:

(In millions)	2004	2003	2002
Current:			
Federal	$ (0.9)	$(36.6)	$(64.1)
State	(4.2)	2.8	0.1
Foreign	5.5	2.6	0.4
Total	0.4	(31.2)	(63.6)
Deferred:			
Federal	—	67.5	21.0
State	—	(2.6)	4.6
Foreign	(0.4)	(0.6)	—
Total	(0.4)	64.3	25.6
Income tax provision (benefit)	$ —	$ 33.1	$(38.0)

In general, the Company is responsible for filing consolidated U.S., foreign and combined, unitary or separate state income tax returns. The Company is responsible for paying the taxes relating to such returns, including any subsequent adjustments resulting from the redetermination of such tax liability by the applicable taxing authorities. Income taxes paid were $11.2 million in 2004, substantially all relating to foreign operations. Income taxes paid in prior years $3.9 million in 2003, and $2.0 million in 2002. The Company received $7.2 million in federal income tax refunds and $0.2 million in state income tax refunds in 2004. No provision has been made for U.S., state or additional foreign taxes related to undistributed earnings of foreign subsidiaries which have been or are intended to be permanently re-invested.

Income (loss) before income taxes included income (loss) from domestic operations of $1.8 million in 2004, $(279.1) million in 2003, and $(99.8) million in 2002.

The following is a reconciliation of income taxes computed at the statutory federal income tax rate to the actual effective income tax provision (benefit):

	Income Tax Provision (Benefit)		
(In millions)	2004	2003	2002
Taxes computed at federal tax rate	$ 6.9	$(98.1)	$(36.3)
State and local income taxes, net of federal tax benefit	0.7	(3.4)	(0.8)
Net operating loss tax credit carryforward	(11.6)	—	—
Valuation allowance	10.1	138.5	—
Adjustment to prior years' taxes	(4.3)	—	—
Other	(1.8)	(3.9)	(0.9)
Income tax provision (benefit)	$ —	$ 33.1	$(38.0)

For 2004, the Company recorded a tax loss, which was available to offset taxes computed at statutory rates. The 2003 effective tax rate includes the effect of establishing a valuation allowance for a majority of the Company's net deferred tax assets. The effective tax rate for 2003, absent the deferred tax valuation allowance, would have been 37.6%. The effective tax rate for 2002 was 36.6%.

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. The categories of assets and liabilities that have resulted in differences in the timing of the recognition of income and expense at December 31, 2004 and 2003 were as follows:

(In millions)	2004	2003
Deferred income tax assets:		
Postretirement benefits other than pensions	$ 179.0	$ 197.5
Federal net operating loss tax carryforwards	47.2	29.4
State operating loss tax carryforwards	40.0	40.3
Pension	34.3	15.2
Deferred compensation and other benefit plans	26.4	18.5
Environmental reserves	13.3	16.4
Self-insurance reserves	10.9	11.8
Vacation accruals	9.7	9.3
Other items	55.1	45.4
Gross deferred income tax assets	415.9	383.8
Valuation allowance for deferred tax assets	(188.9)	(178.8)
Total deferred income tax assets	227.0	205.0
Deferred income tax liabilities:		
Bases of property, plant and equipment	136.6	120.9
Inventory valuation	23.3	19.0
Other items	14.1	12.5
Total deferred income tax liabilities	174.0	152.4
Net deferred income tax asset	$ 53.0	$ 52.6

The Company has $188.9 million and $178.8 million in deferred tax asset valuation allowances at December 31, 2004 and 2003, respectively. Based on current tax law, the Company has federal net operating loss tax carryforwards which will expire as follows: $42.5 million will expire in 2023 and $4.7 million will expire in 2024. The Company also had state net operating loss tax carryforwards of approximately $40 million at both December 31, 2004 and 2003. For most of these state net operating loss tax carryforwards, expiration will occur in 20 years and utilization of the tax benefit is limited to $2 million per year. A valuation allowance has been established for the full of these state net operating loss carryforwards since the Company has concluded that it is more likely than not that these tax benefits would not be realized prior to expiration.

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.118 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.

3.119

PALL CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Accounting Policies and Related Matters (In Part)

Income Taxes

Pall Corporation and its domestic subsidiaries file a consolidated Federal income tax return.

Taxes on income are provided using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse.

Income Taxes (In Part)

The Company has two Puerto Rico subsidiaries that are organized as "possessions corporations" as defined in Section 963 of the Internal Revenue Code. The Small Business Job Protection Act of 1996 repealed Section 936 of the Internal Revenue Code which provided a tax credit for U.S. companies with operations in certain U.S. possessions, including Puerto Rico. For companies with existing qualifying Puerto Rico operations, such as Pall, Section 936 will be phased out over a period of several years, with a decreasing credit being available through the last taxable year beginning before January 1, 2006.

The Company also operates a third Puerto Rico entity as a branch of a wholly owned controlled foreign corporation ("CFC"). Under U.S. tax principles, the earnings of a CFC are normally subject to U.S. tax only upon repatriation. Accordingly, no taxes have been provided on the unrepatriated earnings of this subsidiary.

The components of the net deferred tax asset at July 31, 2004, and August 2, 2003, are as follows:

	2004	2003
Deferred tax asset:		
Tax loss and tax credit carry-forwards	$108,435	$105,965
Inventories	14,166	14,409
Compensation and benefits	48,656	49,922
Environmental	10,003	4,967
Accrued expenses	17,693	8,836
Other	18,748	16,541
Gross deferred tax asset	217,701	200,640
Valuation allowance	(51,683)	(56,275)
Total deferred tax asset	166,018	144,365
Deferred tax liability:		
Plant and equipment	(36,971)	(37,628)
Pension assets	(10,086)	(10,059)
Other	(12,208)	(11,644)
Total deferred tax liability	(59,265)	(59,331)
Net deferred tax asset	$106,753	$ 85,034

As of July 31, 2004, the Company had available tax operating loss, tax capital loss and tax credit carry forwards subject to expiration as follows:

	Losses		
Year of Expiration	Operating	Capital	Tax Credits
2005	$ 35,405	$ —	$ 7,396
2006–08	9,758	66,656	7,567
2018–24	69,558	—	5,508
Subtotal	114,721	66,656	20,471
Indefinite	43,483	—	15,661
Total	$158,204	$66,656	$36,132

The valuation allowance has been reduced by $4,592 as of July 31, 2004. Management has determined that $3,127 of deferred tax assets related to an Italian affiliate's net operating loss carry-forward will be utilized. Due to the reversal of the valuation allowance, this amount has been reflected as a benefit to the current year tax provision. The remainder of the change, amounting to $1,465, relates to the expiration of credit carry-forwards, purchase accounting adjustments and adjustments to other comprehensive income, all of which have no impact on the current year tax provision.

In evaluating the reasonableness of the valuation allowance, management assesses whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Ultimately, the realization of deferred tax assets is dependent upon generation of future taxable income during those periods in which temporary differences become deductible and/or credits can be utilized. To this end, management considers the level of historical taxable income, the scheduled reversal of deferred tax liabilities, tax-planning strategies and projected future taxable income. Based on these considerations, and the indefinite carry-forward availability of certain deferred tax credits (principally related to alternative minimum tax), management believes it is more likely than not that the Company will realize the benefit of the deferred tax asset, net of the July 31, 2004 valuation allowance.

If subsequently recognized, the tax benefit attributable to $43,868 and $964 of the valuation allowance for deferred taxes would be allocated to goodwill and accumulated other comprehensive income, respectively. This valuation allowance relates primarily to pre-acquisition tax operating loss and tax capital loss carry forwards.

United States income taxes have not been provided on the undistributed earnings of foreign subsidiaries (which totaled $992,459 at July 31, 2004) since substantially all such earnings are expected to be permanently invested in foreign operations. Dividend distributions in excess of current earnings or the sale or other disposition of an investment in a foreign subsidiary would cause temporary differences related to undistributed earnings to become taxable. Determination of a hypothetical deferred tax liability, based upon the undistributed earnings of foreign subsidiaries, is not practicable due to the indeterminate nature of underlying assumptions.

3.120

TELLABS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases at enacted tax rates when such amounts are expected to be realized or settled. Valuation allowances are provided if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

12 (In Part): Income Taxes

Deferred tax assets (liabilities) for 2004 and 2003 are composed of the following:

(In millions)	12/31/04	1/2/04
Deferred tax assets		
NOL and tax credit carryforwards	$ 177.6	$ 195.6
Inventory reserves	14.4	22.2
Accrued liabilities	35.5	11.6
Deferred compensation plan	7.9	7.9
Deferred employee benefit expenses	13.4	5.0
Fixed assets and depreciation	—	10.4
Restructuring accruals	17.5	36.2
Amortizable intangibles	2.0	—
Unrealized loss on marketable securities	2.1	—
Other	—	5.8
Gross deferred tax assets	270.4	294.7
Deferred tax liabilities		
Amortizable intangibles	—	(25.3)
Unrealized gain on marketable securities	(198.1)	(1.0)
Fixed assets and depreciation	(21.4)	—
Other	(4.3)	(0.7)
Gross deferred tax liabilities	(223.8)	(27.0)
Valuation allowance	(38.9)	(251.4)
Net deferred tax asset	$ 7.7	$ 16.3

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The net deferred income tax asset decreased from $16.3 million at January 2, 2004, to $7.7 million at December 31, 2004. The $8.6 million change in the net deferred tax balance is primarily attributable to utilization of net operating losses in foreign jurisdictions. Our net deferred tax asset includes a deferred tax liability of $198.1 million representing taxes that will be due on certain hedge contract gains upon termination of our Cisco stock loans.

Deferred Tax Valuation Allowance

SFAS No. 109, *Accounting for Income Taxes*, requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax asset will not be realized. Prior to December 27, 2002, we established valuation allowances only for future tax benefits from certain state net operating losses, credits with relatively short carryforward periods, and certain foreign net operating losses. At December 27, 2002, we determined it appropriate to establish a full valuation allowance against our remaining net U.S. deferred tax assets. For the year ended December 31, 2004, we continued to maintain a full valuation allowance on our net U.S. deferred tax assets. Until an appropriate level of profitability is attained, we expect to continue to record a full valuation allowance on our net deferred tax assets related to future U. S. and certain non-U.S. tax benefits.

During 2004, the valuation allowance maintained against our net U.S. deferred tax asset was reduced as a result of deferred tax liabilities of $177.2 million and $9.9 million recorded in accounting for the purchase of AFC and Vinci. The reduction in the valuation allowance was credited against goodwill recorded with respect to these acquisitions, and did not impact our tax expense.

Summary of Carryforwards

We have carryforward U.S. federal and state net operating losses and research and development credits. The value of these assets decreased from $174.4 million as of January 2, 2004, to $165.4 million as of December 31, 2004. This decrease was primarily attributable to utilization of net operating losses in 2004. The state net operating loss carryforwards and credits will expire at various dates between 2005 and 2023, a majority of which will expire between 2012 and 2023. The federal net operating loss and R&D tax credit carryforwards will expire at various dates between 2020 and 2023.

We have net operating loss carryforwards relating to certain non-U.S. subsidiaries for which a full valuation allowance has been previously established. The value of these assets was $9.6 million at December 31, 2004, compared with $9.4 million at January 2, 2004. We also have not operating losses relating to other non-U.S. subsidiaries for which deferred tax assets exist that are not reduced by a valuation allowance. The value of these assets was $2.6 million at December 31, 2004, compared with $11.8 million at January 2, 2004. The non-U.S. net operating loss carryforwards will expire at various dates between 2005 and 2013.

Investment in Foreign Operations

Deferred U.S. income taxes and foreign withholding taxes are not provided on the undistributed cumulative earnings of foreign subsidiaries because such earnings are considered to be permanently reinvested in those operations. The undistributed cumulative earnings of foreign subsidiaries that are considered permanently reinvested outside the U.S. were $664.5 million at December 31, 2004.

The American Jobs Creation Act of 2004 (the "AJCA"), signed into law in October 2004, includes a provision that allows Tellabs to elect to claim a special one-time dividend received deduction with respect to a qualifying cash repatriation from its foreign subsidiaries. We are evaluating the potential benefits of making this election with respect to a cash repatriation of between $0 and $600.0 million. We expect to complete our evaluation subsequent to enactment of anticipated Technical Corrections legislation. Through the end of 2004, preliminary estimates indicate that Tellabs would owe approximately $70.0 million in U.S. income tax if $600.0 million in cash were repatriated by its foreign subsidiaries under the provisions of the AJCA as enacted.

TAXES ON UNDISTRIBUTED EARNINGS

3.121 *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.

3.122

ASHLAND INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Income Taxes

Deferred income taxes are provided for income and expense items recognized in different years for tax and financial reporting purposes. Ashland has not recorded deferred income taxes on the undistributed earnings of certain foreign subsidiaries and foreign corporate joint ventures. Management intends to indefinitely reinvest such earnings, which amounted to $160 million at September 30, 2004. Because of significant foreign tax credits, it is estimated that U.S. federal income taxes of approximately $17 million would be incurred if those earnings were distributed.

3.123

INGERSOLL-RAND COMPANY LIMITED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Income Taxes

At December 31, 2004, a total of $2.4 million and $47.3 million of non-current deferred taxes and current income taxes payable, respectively has been provided for a portion of the undistributed earnings of the Company's subsidiaries, while at December 31, 2003 these amounts were $5.8 million of non-current deferred taxes and $7.5 million of current deferred taxes. Deferred taxes have not been provided on the remainder of the undistributed earnings of $4,082.7 million since these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries and it is not practicable to estimate the amount of additional taxes which may be payable upon distribution. On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. An evaluation of the effects of the repatriation provision has begun; however, whether the provision will ultimately be utilized depends on a number of factors including reviewing future guidance from Congress or the Treasury Department on key elements of the provision. The evaluation of the effects of the repatriation provision will be completed within a reasonable period of time following the publication of additional guidance. The Company is considering the impact of repatriation on a range of earnings of up to $525 million, and the corresponding income taxes may be as much as approximately $65 million. The resulting income tax, if any, will be provided in the Company's financial statements in the quarter in which the evaluation and approvals have been completed.

3.124

KELLOGG COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Income Taxes

The difference between the U.S. federal statutory tax rate and the Company's effective income tax rate was:

	2004	2003	2002
U.S. statutory tax rate	35.0%	35.0%	35.0%
Foreign rates varying from 35%	−.5	−.9	−.8
State income taxes, net of federal benefit	1.7	1.8	3.1
Foreign earnings repatriation	2.1	—	2.8
Donation of appreciated assets	—	—	−1.5
Net change in valuation allowances	−1.5	−.1	−.2
Statutory rate changes, deferred tax impact	.1	−.1	—
Other	−2.1	−3.0	−1.4
Effective income tax rate	34.8%	32.7%	37.0%

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On October 22, 2004, the American Jobs Creation Act ("AJCA") became law. The AJCA creates a temporary incentive for U.S. multinationals to repatriate foreign earnings by providing an 85 percent dividend received deduction for qualified dividends. The Company may elect to claim this deduction for qualified dividends received in either its fiscal 2004 or 2005 years, and management currently plans to elect this deduction for 2005. Management cannot fully evaluate the effects of this repatriation provision until the Treasury Department issues clarifying regulations. Furthermore, pending technical corrections legislation is needed to clarify that the dividend received deduction applies to both the cash and "section 78 Gross-up" portions of qualifying dividend repatriations. While management believes that technical corrections legislation will pass in 2005, the Company has currently developed its repatriation plan based on the less favorable AJCA provisions in force as of year-end 2004. Under these assumptions, management currently intends to repatriate during 2005 approximately $70 million of foreign earnings under the AJCA and an additional $550 million of foreign earnings under regular rules. Prior to 2004, it was management's intention to indefinitely reinvest substantially all of the Company's undistributed foreign earnings. Accordingly, no deferred tax liability had been recorded in connection with the future repatriation of these earnings. Now that repatriation is foreseeable for up to $620 million of these earnings, the Company provided in 2004 a deferred tax liability of approximately $41 million. Within the preceding table, this amount is shown net of related foreign tax credits of approximately $12 million, for a net rate increase due to repatriation of 2.1 percent.

Should the technical corrections legislation pass during 2005, management currently believes that the company would most likely repatriate a higher amount of foreign subsidiary earnings up to $1.1 billion under AJCA for a similar amount of tax cost. However, under the law as enacted at January 1, 2005, management has determined that reinvestment of these earnings in the local businesses should provide a superior rate of return to the Company, as compared to repatriation. Accordingly, U.S. income taxes have not yet been provided on approximately $730 million of foreign subsidiary earnings.

Generally, the changes in valuation allowances on deferred tax assets and corresponding impacts on the effective income tax rate result from management's assessment of the Company's ability to utilize certain operating loss and tax credit carryforwards. For 2004, the 1.5 percent rate reduction presented in the preceding table primarily reflects reversal of a valuation allowance against U.S. foreign tax credits, which management currently believes will be utilized in conjunction with the aforementioned 2005 foreign earnings repatriation. Total tax benefits of carryforwards at year-end 2004 and 2003 were approximately $48 million and $40 million, respectively. Of the total carryforwards at year-end 2004, approximately $3 million expire in 2005 and another $4 million will expire within five years. Based on management's assessment of the Company's ability to utilize these benefits prior to expiration, the carrying value of deferred tax assets associated with carryforwards was reduced by valuation allowances to approximately $37 million at January 1, 2005.

LONG-TERM CONTRACTS

3.125 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.*

3.126 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. 18 companies used both of the aforementioned methods. Examples of disclosure for long-term contracts follow.

3.127

TABLE 3-16: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Percentage-of-completion	77	78	82	80
Units-of-delivery	39	32	26	21
Completed contract	9	9	5	3

3.128

LOCKHEED MARTIN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note1 (In Part): Significant Accounting Policies

Receivables

Receivables consist of amounts billed and currently due from customers, and unbilled costs and accrued profits primarily related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. As such revenues are recognized, appropriate amounts of customer advances, performance-based payments and progress payments are reflected as an offset to the related accounts receivable balance.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production or contract-specific facilities and equipment, allocable operating overhead, advances to suppliers and, where appropriate, research and development and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances, performance-based payments and progress payments. Such advances and payments are reflected as an offset against the related inventory balances. General and administrative expenses related to commercial products and services provided essentially under commercial terms and conditions are expensed as incurred. Costs of other product and supply inventories are principally determined by the first-in first-out or average cost methods.

Customer Advances and Amounts in Excess of Costs Incurred

The Corporation receives advances, performance-based payments and progress payments from customers which may exceed costs incurred on certain contracts, including contracts with agencies of the U.S. Government. Such advances, other than those reflected as a reduction of accounts receivable or inventories as discussed above, are classified as current liabilities.

Note 4 Receivables

(In millions)	2004	2003
U.S. Government:		
Amounts billed	$1,529	$1,421
Unbilled costs and accrued profits	2,394	2,351
Less customer advances and progress payments	(594)	(470)
Foreign governments and commercial:		
Amounts billed	408	335
Unbilled costs and accrued profits	402	448
Less customer advances	(45)	(46)
	$4,094	$4,039

Substantially all of the December 31, 2004 unbilled costs and accrued profits are expected to be billed during 2005.

Note 5. Inventories

(In millions)	2004	2003
Work in process, primarily related to long-term contracts and programs in progress	$ 4,697	$ 5,434
Less customer advances and progress payments	(3,267)	(3,396)
	1,430	2,038
Other inventories	434	310
	$ 1,864	$ 2,348

Inventories included amounts advanced to Khrunichev State Research and Production Space Center (Khrunichev), the Russian manufacturer of Proton launch vehicles and provider of related launch services, of $301 million and $327 million at December 31, 2004 and 2003, respectively, to provide launch services. These amounts are net of a reserve recorded in 2002 related to the Corporation's assessment of the probability of termination of certain launches under contract, as well as amounts related to advances for launches not under contract. Advances for launches not under contract are subject to an agreement which provides for reduced future payments from Lockheed Martin to Khrunichev on launches contingent on the receipt of new orders as well as a minimum number of actual launches each year, in lieu of the requirement to provide launch services. The charge related to the reserve, net of state income tax benefits, was $173 million, and reduced 2002 net earnings by $112 million ($0.25 per share). In addition, commercial launch vehicle inventories included amounts advanced to RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of $64 million and $57 million at December 31, 2004 and 2003, respectively, for the development and purchase, subject to certain conditions, of RD-180 booster engines used for Atlas launch vehicles.

Inventories at December 31, 2004, also included deferred costs related to upgrading a West Coast launch facility for the Atlas V program. Under the contract with the U.S. Government, the Corporation will recover these costs over future launches from that facility.

In 2003, the Corporation recorded a charge, net of state income tax benefits, of $41 million related to its decision to exit the commercial mail sorting business. The charge, which related primarily to the impairment of inventories of the business, reduced net earnings by $27 million ($0.06 per share).

Work in process inventories at December 31, 2004 and 2003 included general and administrative costs, including independent research and development costs and bid and proposal costs, of $321 million and $424 million, respectively. General and administrative costs charged to cost of sales from inventories for the years ended December 31, 2004, 2003 and 2002, including independent research and development costs and bid and proposal costs, totaled $1.9 billion, $2.0 billion and $1.7 billion, respectively.

Approximately $385 million of costs included in 2004 inventories, including amounts advanced to Khrunichev ($161 million) and certain Atlas V program costs, are expected to be recovered after 2005.

3.129

MCDERMOTT INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Contracts and Revenue Recognition

We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the product or activity involved. Certain partnering contracts a risk-and-reward element, whereby a portion of total compensation is tied to the overall performance of the alliance partners. We include revenues and related costs so recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, in contracts in progress. We include in advance billings on contracts billings that exceed accumulated contract costs and revenues and costs recognized under the percentage-of-completion method. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. We review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage-of-completion in income in the period when those estimates are revised. For all contracts, if a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

For contracts as to which we are unable to estimate the final profitability except to assure that no loss will ultimately be incurred, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these deferred profit recognition contracts, we recognize revenue and cost equally and only recognize gross margin when probable and reasonably estimable, which we generally determined to be when the contract is approximately 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical except to assure that no loss will be incurred, as deferred profit recognition contracts.

Our policy is to account for fixed-price contracts under the completed-contract method if we are unable to reasonably forecast cost to complete at start-up. Under the completed-contract method, income is recognized only when a contract is completed or substantially complete.

Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. We include claims for extra work or changes in scope of work to the extent of costs incurred in contract revenues when we believe collection is probable. At December 31, 2004 and 2003, we have included in accounts receivable approximately $19.5 million relating to commercial contract claims whose final settlement is subject to future determination through negotiations or other procedures that had not been completed. These claims originated in 1998 and are included in Other Assets. In addition, included in Accrued Contract Costs and Accrued Liabilities—Other are amounts totaling approximately $5.9 million related to this receivable. We believe this amount is collectible as we have obtained a favorable arbitration award, although the award is being contested.

(In thousands)	2004	2003
Included in contracts in progress:		
Costs incurred less costs of revenue recognized	$ 59,263	$ 47,988
Revenues recognized less billings to customers	13,092	21,497
Contracts in progress	$ 72,355	$ 69,485
Included in advance billings on contracts:		
Billings to customers less revenues recognized	$267,841	$136,279
Costs incurred less costs of revenue recognized	(50,788)	39,826
Advance billings on contracts	$217,053	$176,105

The following amounts represent retainages on contracts:

(In thousands)	2004	2003
Retainages expected to be collected in 2005	$ 63,256	$28,407
Retainages expected to be collected after one year	39,393	27,624
Total retainages	$102,649	$56,031

We have included in accounts receivable–trade retainages expected to be collected in 2005. Retainages expected to be collected after one year are included in other assets. Of the long-term retainages at December 31, 2004, we anticipate collecting $23.1 million in 2006, $15.9 million in 2007 and $0.4 million in 2008.

3.130

R.R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Revenue Recognition

The Company recognizes revenue for the majority of its products upon shipment to the customer and the transfer of title and risk of loss. Contracts generally specify F.O.B. shipping point terms. Under agreements and certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company receives a logistics and warehouse management fee for the services it provides. In certain cases, delivery and billing schedules are outlined with the customer and product revenue is recognized when manufacturing is complete, title and risk of loss transfer to the customer, the order is invoiced and there is a resonable assurance as to collectibility. Because the majority of products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale. Billings for third-party shipping and handling costs are included in net sales.

Revenue from services is recognized as services are performed. Long-term product contract revenue is recognized based on the completed method or percentage of completion method. The percentage of completion method is used only for contracts that will take longer than three months to complete, where project stages are clearly defined and can be invoiced and where the contract contains enforceable rights by both parties. Revenue related to short-term service contracts and contracts that do not meet the percentage of completion criteria is recognized when the contract is completed.

Within the Company's financial print business, which serves the global financial services end market, the Company produces highly customized materials such as regulatory S-filings, initial public offerings and mutual funds compliance communications, as well as provides EDGAR-related services. Revenue is recognized for these services following final delivery of the printed product or upon completion of the service performed.

Revenue related to the Company's premedia operations, which include digital content management such as photography, color services and page production, are recognized in accordance with the terms of the contract, typically upon completion of the performed service and acceptance by the customer. With respect to the Company's logistics operations, whose operations include the delivery of printed material, the Company recognizes revenue upon completion of the delivery of services we provide.

The Company records deferred revenue in situations where the revenue recognition criteria outlined above is not met.

3.131

TEXTRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (In Part)

Long-Term Contracts

Long-term contracts are accounted for under American Institute of Certified Public Accountants Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue under fixed-price contracts is generally recorded as deliveries are made under the units-of-delivery method. Certain long-term fixed-price contracts provide for periodic delivery after a lengthy period of time over which significant costs are incurred or require a significant amount of development effort in relation to total contract volume. Revenues under those contracts and all cost-reimbursement-type contracts are recorded as costs are incurred under the cost-to-cost method. Certain contracts are awarded with fixed-price incentive fees. Incentive fees are considered when estimating revenues and profit rates and are recorded when these amounts are reasonably determined. Long-term contract profits are based on estimates of total sales value and costs at completion. Such estimates are reviewed and revised periodically throughout the contract life. Revisions to contract profits are recorded when the revisions to estimated sales value or costs are made. Estimated contract losses are recorded when identified.

Bell Helicopter has a joint venture with The Boeing Company ("Boeing") to provide engineering, development and test services related to the V-22 aircraft, as well as to produce the V-22 aircraft, under a number of separate contracts with the U.S: Government (the "V-22 Contracts"). The V-22 Contracts include the development contract and various production release contracts (i.e., lots) that may run concurrently with multiple earlier lots still being produced as new lots are started. The development contract and the first three production lots are under cost-reimbursement-type contracts, while subsequent lots are under fixed-price incentive contracts. The first three lots under fixed-price incentive contracts have been accounted for under the cost-to-cost method, primarily as a result of the significant engineering effort required over a lengthy period of time during the initial development phase in relation to total contract volume. The production releases on the first six production lots include separately contracted modifications to meet the additional requirements of the U.S. Government's Blue Ribbon Panel. In 2003, the development effort was considered substantially complete for the new production releases beginning in 2003 and management believed a consistent production specification had been met as these units incorporate many of these modifications on the production line. Accordingly, revenue on the new production releases that began in 2003 is recognized under the units-of-delivery method.

Inventories

Inventories are carried at the lower of cost or estimated net realizable value. The cost of approximately 65% of inventories is determined using the last-in, first-out method. The cost of remaining inventories, other than those related to certain long-term contracts, is generally valued by the first-in, first-out method. Costs for commercial helicopters are determined on an average cost basis by model considering the expended and estimated costs for the current production release. Customer deposits are recorded against inventory when the right of offset exists. All other customer deposits are recorded as liabilities.

Note 3. Accounts Receivable

Accounts receivable is composed of the following:

(In millions)	2004	2003
Commercial and customers	$1,055	$ 966
U.S. Government contracts	220	224
	1,275	1,190
Less allowance for doubtful accounts	64	66
	$1,211	$1,124

Unbillable receivables on U.S. Government contracts arise when the revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled $133 million at January 1,2005 and $126 million at January 3,2004. Long-term contract receivables due from the U.S. Government do not include significant amounts billed but unpaid due to contractual retainage provisions or subject to collection uncertainty.

Note 5. Inventories

(In millions)	2004	2003
Finished goods	$ 643	$ 686
Work in process	1,206	681
Raw materials	231	202
	2,080	1,569
Less progress/milestone payments	338	66
	$1,742	$1,503

Inventories aggregating $1.1 billion and $1.0 billion at the end of 2004 and 2003, respectively, were valued by the last-in, first-out ("LIFO") method. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $238 million and $224 million higher at those respective dates. The remaining inventories, other than those related to certian long-term contracts, are valued primarily by the first-in, first-out ("FIFO") method. Inventories related to long-term contracts, net of progress/milestone payments were $259 million at the end of 2004 and $137 million at the end of 2003.

DISCONTINUED OPERATIONS

3.132 APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, addresses the financial accounting and reporting requirements for a segment of a business accounted for as a discontinued operation. Under *APB Opinion No. 30*, discontinued operations were reported separately from continuing operations.

3.133 Effective for fiscal years beginning after December 15, 2001, with early application encouraged, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, supersedes the accounting and reporting provisions of *APB Opinion No. 30*. Paragraphs 41–44 of *SFAS No. 144* set forth the reporting for discontinued operations.

3.134 While retaining the basic provisions of APB Opinion No. 30 for the presentation of discontinued operations, the statement broadens the presentation to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or operating segment (as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*), a reporting entity (as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*), or an asset group (as defined by paragraph 4 of *SFAS No. 144*).

3.135 *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.

3.136 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.

3.137 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*.

3.138 In 2004, 115 survey companies discontinued or planned to discontinue the operations of a component of an entity. 69 of the survey companies reported a gain or loss recognized on the disposal of a component of an entity. 50 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

3.139

LABARGE, INC. (JUN)

(Amounts in thousands)	2004	2003	2002
Earnings from continuing operations before income taxes	$11,503	$5,076	$6,687
Income tax expense	4,532	1,757	2,326
Net earnings from continuing operations	6,971	3,319	4,361
Discontinued operations:			
Loss from discontinued operations (less applicable income tax benefit of $70, $519 and $263, respectively)	(114)	(859)	(431)
Gain (loss) on disposal of discontinued operations of $20, $2,222 (less applicable income tax expense of $8, and $2,434, respectively)	12	(212)	—
Net earnings	$ 6,869	$2,248	$3,930

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Nature of Operations (In Part)

On August 7, 2003, LaBarge, Inc. sold the non-railroad industry portion of its ScadaNET Network™ remote equipment monitoring businesses for $225,000. See Note 2, "Acquisitions, Discontinued Operations and Investments."

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

Discontinued Operations

On August 7, 2003, the Company sold the remainder of its ScadaNET Network™ business for $225,000 cash. The Company recorded a $20,000 pretax gain on the transaction. This sale completes the company's exit from the ScadaNET Network™ business. On November 1, 2002, LaBarge, Inc. sold the railroad industry portion of its ScadaNET Network™ remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC ("GETS Global Signaling"), Grain Valley, Missouri. The ScadaNET Network remote equipment monitoring business had been operated as the Network Technologies Group.

The GETS Global Signaling sale was valued at approximately $6.8 million, including $5.3 million in cash and GETS Global Signaling's assumption of approximately $1.5 million in certain liabilities. The $5.3 million of cash includes $795,000 held in an escrow account against any claims GETS Global Signaling has for breaches of representations and warranties. One-third of the escrow was released on November 1, 2003. The Company expects the escrowed balance to be released in equal installments over the next two years on the anniversary date of the sale. The Company recognized a pretax gain of $2.2 million and a book tax expense of $(2.4 million), netting to a loss of $212,000.

(Dollars in thousands)	2004	2003	2002
Railroad ScadaNET Network business	$ —	$ 777	$2,545
Other ScadaNET Network business	38	431	400
Net sales on discontinued operations	$ 38	$1,208	$2,945
Railroad ScadaNET Network business	$ —	$ (4)	$ 125
Other ScadaNET Network business	(114)	(855)	(556)
Loss on discontinued operations, net of tax	$(114)	$ (859)	$ (431)

3.140

THE STANLEY WORKS (DEC)

(In millions of dollars)	2004	2003	2002
Earnings from continuing operations before income taxes	$329.1	$122.6	$227.3
Income taxes	88.9	31.7	70.1
Net earnings from continuing operations	$240.2	$ 90.9	$157.2
Earnings from discontinued operations before income taxes (including $180.7 million gain on 2004 divestitures)	195.9	28.2	45.3
Income taxes on discontinued operations	69.2	11.2	17.5
Net earnings from discontinued operations	$126.7	$ 17.0	$ 27.8
Net earnings	$366.9	$107.9	$185.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

T. Discontinued Operations

On October 15, 2004, the Company entered into a definitive agreement to sell its Home Décor business to Wellspring Capital Management LLC, a New York-based private equity investment firm. The $87 million cash sale transaction closed on December 4, 2004 and resulted in an after-tax gain of $24 million.

In a definitive agreement effective December 31, 2004, the Company sold Friess, its German paint roller business, to Nespoli Groupe SpA for $6.4 million, and an unfavorable loss of $3.6 million was recognized thereon.

On December 8, 2003, the Company entered into a definitive agreement to sell its Residential Entry Door business to Masonite International Corporation. The $161 million cash sale transaction closed on March 2, 2004 and resulted in an after-tax gain of $95 million.

In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets", the results of operations of the Home Décor, Friess and Residential Entry Door businesses for the current and prior periods have been reported as discontinued operations. In addition the assets and liabilities of the Home Décor, Friess and Residential Entry Door businesses have been reclassified as held for sale in the Consolidated Balance Sheet at January 3, 2004. The divestures of these businesses were made pursuant to the Company's growth strategy which entails a reduction of risk associated with certain large customer concentrations.

The Home Décor business supplied mirrored closet doors, closet organization products and wall décor products primarily through large retailers in North America and Europe. The Friess business manufactured paint rollers in Germany and sold them into the private label market in continental Europe. The Residential Entry Door business manufactured and distributed steel and fiberglass entry doors and components throughout North America. Operating results of the Home Décor, Friess and Residential Entry Door businesses, which were formerly included in the Consumer Products segment, are summarized as follows:

(Millions of dollars)	2004	2003	2002
Net sales	$108.4	$329.8	$358.7
Pretax earnings	16.3	28.2	45.3
Income taxes	5.2	11.2	17.5
Net earnings from discontinued operations	$ 11.1	$ 17.0	$ 27.8

The Home Décor, Friess and the Residential Entry Door businesses sales to The Home Depot amounted to 28% of their net sales in 2004 and 63% in 2003 and 67% in 2002.

Assets and liabilities of the Home Décor, Friess and Residential Entry Door businesses as of January 3, 2004 are as follows:

(Millions of dollars)	2003
Accounts receivable	$ 25.3
Inventories	22.4
Other assets	3.3
Property, plant and equipment	40.1
Goodwill	14.1
Total assets	105.2
Accounts payable	41.0
Accrued expenses	16.8
Other liabilities	4.7
Total liabilities	$ 62.5

Goodwill disposed of in these 2004 divestitures amounted to $14.1 million.

3.141

TEKTRONIX, INC. (MAY)

(In thousands)	2004	2003	2002
Earnings before taxes	$167,312	$33,305	$51,625
Income tax expense (benefit)	49,087	(1,843)	18,069
Net earnings from continuing operations	118,225	35,148	33,556
Loss from discontinued operations, net of income taxes	(2,130)	(9,819)	(867)
Net earnings	$116,095	$25,329	$32,689

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Discontinued Operations

Discontinued operations presented on the Consolidated Statements of Operations included the following:

(In thousands)	2004	2003	2002
Loss on sale of VideoTele.com (less applicable income tax benefit of $48, $344, and $0)	$ (89)	$ (639)	$ —
Loss from operations of VideoTele.com (less applicable income tax benefit of $0, $1,413 and $1,007)	—	(2,624)	(1,869)
Loss on sale of optical parametric test business (less applicable income tax benefit of $195, $9,222 and $0)	(363)	(17,127)	—
Loss from operations of optical parametric test business (less applicable income tax benefit of $0, $1,376 and $111)	—	(2,556)	(206)
Loss on sale of Gage (less applicable income tax benefit of $692, $1,174 and $0)	(1,284)	(2,180)	—
Loss from operations of Gage (less applicable income tax benefit of $212, $508 and $554)	(394)	(943)	(1,029)
Gain on sale of Color Printing and Imaging (less applicable income tax expense of $0, $8,750 and $1,204)	—	16,250	2,237
Loss from discontinued operations, net of income taxes	$(2,130)	$ (9,819)	$ (867)

Sale of Color Printing and Imaging

On January 1, 2000, the Company sold substantially all of the assets of the Color Printing and Imaging division ("CPID"). The Company accounted for CPID as a discontinued operation in accordance with Accounting Principles Board ("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." The sales price was $925.0 million in cash, with certain liabilities of the division assumed by the purchaser. During fiscal year 2000, the Company recorded a net gain of $340.3 million on this sale. The net gain was calculated as the excess of the proceeds received over the net book value of the assets transferred, $198.5 million in income tax expense, $60.0 million of contingencies related to the sale and $14.4 million in transaction and related costs.

In accordance with Statement of Financial Accounting Standard No. 5 "Accounting for Contingencies", it is the Company's policy to defer recognition of a gain where it is believed that contingencies exist that may result in that gain being recognized prior to realization. The Company analyzes the amount of deferred gain in relation to outstanding contingencies, and recognizes additional gain when persuasive objective evidence indicates that such contingencies are believed to be resolved. With regard to the contingencies associated with the sale of CPID, persuasive objective evidence includes a) legal determinations resulting in the resolution of contingencies, including lapse of claim periods defined in the final sale agreement, b) the resolution of claims made by the purchaser, c) evidence that liabilities underlying current or probable future claims have been resolved and d) interactions with the purchaser on outstanding claims. The $60.0 million of contingencies represents the deferral of a portion of the gain on sale that management of the Company believed was not realizable due to certain contingencies contained in the final sale agreement and approximated the amount that management believed was the maximum exposure under the contingencies. The specific nature of these contingencies was specified in the final sale agreement.

The contingencies contained in the final sale agreement represented provisions designed to protect the purchaser in disputes over the net assets included in the closing balance sheet and breach of certain representations and warranties by the Company. The Company viewed these exposures in terms of the following categories: balance sheet arbitration, liabilities subject to indemnity, 18 month indemnity for breach of certain representations and warranties and a 36 month indemnity for breach of certain representations and warranties. The Company's estimate of the maximum contingency, including anticipated costs and expenses to resolve these matters, was $60.0 million. This estimate was based on certain limitations on purchase contingencies as defined in the final sale agreement as well as the Company's estimates of other exposures not subject to these limitations. As the maximum exposure under these categories is measured in the aggregate by the Company and as there are many overlapping provisions between these categories, the Company's review of these contingencies considered both the individual categories as well as the aggregate remaining exposures.

Subsequent to the close of the transaction, the Company and the purchaser entered into an arbitration process to determine settlement of certain disputes regarding the value of the net assets transferred at the closing date. This arbitration process was provided to the purchaser under the terms of the final sale agreement. This arbitration was resolved in the first quarter of fiscal year 2002, resulting in an $18.0 million payment by the Company to the purchaser: This settlement directly reduced the $60.0 million previously deferred gain.

During fiscal year 2003, the Company recognized $25.0 million of the previously deferred gain as a result of the resolution of certain of the purchase contingencies related to the sale, in accordance with the accounting policy described above in this footnote. The $25.0 million of pre-tax gain was recognized in Discontinued operations. Of the total $25.0 million recognized in fiscal year 2003, $20.0 million was recorded during the third quarter of fiscal year 2003. Persuasive objective evidence supporting the recognition of $20.0 million included a) the expiration of the 36 month deadline for certain claims included in the final sale agreement, which passed without the receipt of claims from the purchaser, b) analysis of exposures underlying pending claims previously made by the purchaser, and c) the interactions with the purchaser regarding these pending claims, which included the fact that significant time had lapsed since the purchaser had pursued these claims. The Company recognized an additional $5.0 million of pre-tax gain in Discontinued operations during the fourth quarter of fiscal year 2003 based on persuasive objective evidence that certain previously identified exposures had been resolved without consequence to the Company.

Other payments and adjustments during fiscal years 2001, 2002 and 2003 reduced the balance of the contingencies by $4.6 million. As of May 29, 2004 and May 31, 2003, the balance of the contingencies on sale related to the CPID disposition was $10.4 million, a significant portion of which may take several years to resolve. The continued deferral of this amount is associated with existing exposures for which the Company believes adequate evidence of resolution has not been obtained. The Company continues to monitor the status of the CPID related contingencies based on information received. If unforeseen events or circumstances arise subsequent to the balance sheet date, changes in the estimate of these contingencies would occur. The Company, however, does not expect such changes to be material to the financial statements.

Sale of VideoTele.com

On November 7, 2002, the Company completed the sale of the VideoTele.com ("VT.c") subsidiary. VT.c was sold to Tut Systems, Inc. ("Tut"), a publicly traded company, for 3,283,597 shares of Tut common stock valued on the sale date at $4.2 million and a note receivable for $3.1 million due in November 2007. The common stock is classified as an available-for-sale security and both the common stock and the note receivable are included in Other long-term assets in the Consolidated Balance Sheets. The Company holds less than 20% of the outstanding common stock of Tut and does not have the ability to significantly influence the operations of Tut. The note receivable accrues interest at an annual rate of 8%. As a result of this transaction, employees of VT.c on the transaction date became employees of the post-merger entity at the time of the closing. The Company's reason for divesting the VT.c business was that the VT.c product offering was not consistent with Company's strategy of focusing on the test, measurement and monitoring markets, which ultimately resulted in the sale of this business to Tut. The sale of VT.c has been accounted for as a discontinued operation in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the results of VT.c operations prior to the transaction date, and the loss on this sale, have been excluded from continuing operations and recorded as discontinued operations, net of tax, in the Consolidated Statements of Operations.

Sale of Optical Parametric Test Business

The optical parametric test business was acquired in April 2002 for $23.2 million: The purchase included $2.0 million of intangible assets, $4.3 million of other net assets and $16.9 million of goodwill. The optical parametric test business was a technology innovator in optical test and measurement components. During the third quarter of fiscal year 2003, management approved and initiated an active plan for the sale of its optical parametric test business. This business was accounted for as a discontinued operation in accordance with SFAS No. 144. Accordingly, the results of operations of the optical parametric test business have been excluded from continuing operations and recorded as discontinued operations. The net carrying value of assets, primarily goodwill and other intangible assets, were adjusted to estimated selling price less costs to sell which resulted in a $15.3 million write-down, net of income tax benefit of $8.4 million, included in loss on sale of the optical parametric test business in the third quarter of fiscal year 2003. The market for optical parametric test equipment was dramatically affected by the economic conditions that negatively impacted many technology sectors, which began in the second half of fiscal year 2001 and continued into fiscal year 2003 (see additional discussion under the Economic Conditions section in Results of Operations in Management's Discussion and Analysis). The reduction in the value of the optical parametric test business during the period it was owned by the Company was a direct result of the impact of these economic conditions. On May 27, 2003, the Company sold its optical parametric test business for $1.0 million. The Company recognized an additional loss on the sale of $1.7 million, net of income tax benefit of $0.9 million, in the fourth quarter of fiscal year 2003. Loss from discontinued operations during the current fiscal year includes an additional net loss from the sale of the optical parametric test business due to settlement of additional costs arising after the sale.

Sale of Gage Applied Sciences

During the fourth quarter of fiscal year 2003, management of the Company approved and initiated an active plan for the sale of Gage Applied Sciences ("Gage"), a wholly-owned subsidiary of the Company. Gage, located in Montreal, Canada, produced PC-based instruments products. The divestiture of this entity was consistent with the Company's strategy of concentrating its resources in core product areas and de-emphasizing products which are determined to be less strategic. During the first quarter of fiscal year 2004, the Company sold the operations of Gage to a third party. This business has been accounted for as a discontinued operation in accordance with SFAS No. 144. The Company recorded an after-tax loss of $0.8 million during the first quarter of fiscal year 2004 to reflect adjustments to the previously estimated after-tax loss of $2.2 million on the disposition of this discontinued operation which was recorded during the fourth quarter of fiscal year 2003 to write-down the net assets, primarily goodwill, of Gage to net realizable value less estimated selling costs.

Adjustment of Gain/Loss Reported in Prior Period

3.142

QUANTUM CORPORATION (MAR)

(In thousands)	2004	2003	2002
Loss before income taxes	$(30,957)	$(137,173)	$(58,612)
Income tax provision (benefit)	32,758	(5,085)	(9,612)
Loss from continuing operations	(63,715)	(132,088)	(49,000)
Discontinued operations:			
Income (loss) from NAS discontinued operations, net of income taxes	1,693	(37,909)	(33,470)
Gain on disposition of HDD group, net of income taxes	—	—	124,972
Income (loss) from discontinued operations	1,693	(37,909)	91,502
Income (loss) before cumulative effective of an accounting change	(62,022)	(169,997)	42,502
Cumulative effect of an accounting change	—	(94,298)	—
Net income (loss)	$(62,022)	$(264,295)	$ 42,502

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Statement Presentation (In Part)

The NAS business was sold on October 28, 2002. As a result of this disposition, the Consolidated Financial Statements and related notes have been restated to present the results of the NAS business as discontinued operations. Accordingly, in the consolidated statements of operations, the operating results of the NAS business have been classified as "Income (loss) from NAS discontinued operations, net of income taxes."

Note 20 (In Part): Discontinued Operations

Disposition of the NAS Business

Quantum was previously engaged in the business of developing, manufacturing, and selling network attached storage solutions for the desktop and workgroups. The NAS products consisted primarily of server appliances that incorporate hard disk drives and an operating system designed to meet the requirements of entry, workgroup, and enterprise computing environments, where multiple computer users access shared data files over a local area network.

On October 7, 2002, Quantum entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to its NAS business. The NAS assets that were sold included inventories for resale to customers, service inventories, fixed assets and intellectual property. The proceeds from the sale included approximately $4.7 million in cash, $3.9 million in restricted equity securities of the buyer with an option to acquire additional equity securities, a secured promissory note for $2.4 million issued by the buyer and the assumption by the buyer of $1.6 million of warranty liability in connection with the prior installed base of NAS products. The sale was completed on October 28, 2002.

The following table summarizes the results of the NAS business:

(In thousands)	2004	2003	2002
Revenue	$ —	$ 19,899	$ 58,117
Gross profit	$1,064	$ (3,075)	$ 8,285
Operating expenses	$ (629)	$ 45,707	$ 59,415
Income (loss) from operations	$1,693	$(48,782)	$(51,130)
Income (loss) before income taxes	$1,693	$(48,633)	$(51,189)
Income tax benefit	$ —	$(10,724)	$(17,719)
Income (loss) from discontinued operations	$1,693	$(37,909)	$(33,470)

The income from operations in fiscal year 2004 consists of a reversal of an accrual for warranty expense on NAS products sold by Quantum with the lapse of the warranty period and a reversal of remaining severance benefits accruals associated with certain employees impacted by the disposition of the NAS business, which would have been payable by Quantum had the employees been terminated by the acquirer of the NAS business within a set time from the acquisition date.

The loss from operations in fiscal year 2003 includes an impairment charge of $16.4 million and special charges of $11.7 million. In the second quarter of fiscal year 2003, Quantum determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets to Connex. In the fiscal year 2003, Quantum recorded $11.7 million of special charges related to the consolidation of sales and marketing activities, including severance charges and vacant facilities charges associated with the sale of the NAS business.

In fiscal year 2002, the loss from operations included $3.3 million of purchased in-process research and development related to the acquisition of Connex in August 2001. The loss also included $4.5 million of special charges associated mainly with writing off deferred costs related to the abandonment of the planned initial public offering of the subsidiary that operated Quantum's NAS business, as well as severance charges related to restructurings.

The following table summarizes the current assets and current liabilities of discontinued operations (there were no balances at March 31, 2004 as a result of the disposition):

(In thousands)	2002
Current assets of discontinued operations:	
Inventories	$ 2,837
Service inventories	2,016
Property and equipment, net	2,123
Goodwill, net	25,340
Intangible assets, net	26,904
	$59,220
Current liabilities of discontinued operations:	
Accrued warranty	$ 1,034
Deferred income taxes	8,581
	$ 9,615

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

3.143 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.

3.144

TABLE 3-17: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	2004	**2003**	**2002**	**2001**
Minority interest	103	101	95	98
Equity in earnings or losses of investees	37	35	38	41
Cumulative effect of accounting change	26	118	179	103
Distributions on trust preferred securities	1	5	4	4
Other	2	2	1	4

3.145

VIACOM INC. (DEC)

(In millions)	2004	2003	2002
Earnings (loss) from continuing operations before income taxes, equity in earnings (loss) of affiliated companies and minority interest	$(13,655.0)	$3,739.4	$ 3,420.9
Provision for income taxes	(1,378.6)	(1,497.0)	(1,338.3)
Equity in earnings (loss) of affiliated companies, net of tax	(20.8)	.1	(37.3)
Minority interest, net of tax	(5.1)	(4.7)	(3.3)
Net earnings (loss) from continuing operations	(15,059.5)	2,237.8	2,042.0
Discontinued operations:			
Earnings (loss) from discontinued operations	(1,182.7)	(718.8)	255.3
Income taxes, net of minority interest	92.4	(83.6)	(90.7)
Net earnings (loss) from discontinued operations	(1,090.3)	(802.4)	164.6
Net earnings (loss) before cumulative effect of accounting change	(16,149.8)	1,435.4	2,206.6
Cumulative effect of an accounting change, net of minority interest and tax	(1,312.4)	(18.5)	(1,480.9)
Net earnings (loss)	$(17,462.2)	$1,416.9	$ 725.7

EXTRAORDINARY ITEMS

3.146 *APB Opinion No. 30* defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *APB Opinion No. 30* and related AICPA Accounting Interpretation, *Reporting the Results of Operations*, illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in FASB *Accounting Standards—Current Text*, Section I17, *Income Statement Presentation: Extraordinary Items*. SFAS No. 4, *Reporting Gains and Losses From Extinguishment of Debt*, specifies that material debt extinguishment gains and losses be classified as extraordinary items. Under *SFAS No. 4*, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Effective for fiscal years beginning after May 15, 2002, SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, rescinds *SFAS No. 4*. Since the issuance of *SFAS No. 4*, the use of debt extinguishment has become part of the risk management strategy of many companies. *SFAS No. 145* stipulates that only debt extinguishments, which meet the criteria in *APB Opinion No. 30* for classification as extraordinary items, are classified as extraordinary.

3.147 Table 3-18 shows the nature of items classified as extraordinary by the survey companies. Examples of the presentation and disclosure of extraordinary items follow.

3.148

TABLE 3-18: EXTRAORDINARY ITEMS

	2004	2003	2002	2001
Nature				
Debt extinguishments	—	4	40	70
Other	4	8	2	8
Total Extraordinary Items	**4**	**12**	**42**	**78**
Number of Companies				
Presenting extraordinary items	4	12	42	78
Not presenting extraordinary items	596	588	558	522
Total Companies	**600**	**600**	**600**	**600**

Consolidation of Variable Interest Entity

3.149

CABLEVISION SYSTEMS CORPORATION (DEC)

(Dollars in thousands)	2004	2003	2002
Loss from continuing operations before income taxes	$(1,000,698)	$(262,749)	$(543,166)
Income tax benefit (expense)	333,696	(20,367)	74,382
Loss from continuing operations	(667,002)	(283,116)	(468,784)
Income (loss) from discontinued operations, net of taxes	(1,654)	(14,123)	562,667
Income (loss) before extraordinary item	(668,656)	(297,239)	93,883
Extraordinary loss on investment, net of taxes	(7,436)	—	—
Net income (loss)	$ (676,092)	$(297,239)	$ 93,883

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 3 (In Part): Transactions

2004 Transactions (In Part)

In January 2004, Rainbow DBS Company, LLC, an indirect wholly-owned subsidiary of the Company, invested $100 for a 49% interest in DTV Norwich, an entity that acquired licenses at auction from the Federal Communications Commission ("FCC") to provide multichannel video distribution and data service ("MVDDS") in 46 metropolitan areas in the United States. In connection with the equity investment, the Company loaned DTV Norwich an additional $84,600 for the acquisition of these licenses (the "DTV Norwich Transaction"). Under the terms of the promissory note with DTV Norwich, the loan was forgiven when FCC granted the MVDDS licenses to DTV Norwich on July 27, 2004 and September 23, 2004.

Rainbow DBS also agreed to a put/call option with the other investor in DTV Norwich. Rainbow DBS had a call option to purchase an additional 41% membership interest in DTV Norwich at an exercise price of $4,230. Rainbow DBS exercised its call option on October 29, 2004. Rainbow DBS has received FCC approval to acquire the 41% membership interest which will give Rainbow DBS control of this entity. The other investor has the right, for ten years, to put its remaining 10% interest to Rainbow DBS at fair value to be determined by a process involving independent valuation experts.

Pursuant to FIN 46R, Consolidation of Variable Interest Entities, this entity was consolidated with the Company as of the date of the transaction since it does not have sufficient equity to demonstrate that it can finance its activities without additional subordinated financial support. The acquired licenses were recorded in the accompanying consolidated balance sheet as other intangible assets and were deemed to have an indefinite life. Since this variable interest entity is not considered a business pursuant to FIN 46R, the excess of the fair value of the consideration paid and the newly consolidated non-controlling interest over the fair value of the newly consolidated identifiable assets, of $7,436 net of taxes of $5,384, was recorded as an extraordinary loss. In connection with the Company's decision in December 2004 to seek strategic alternatives for the Rainbow DBS business, the Company reduced the carrying value of the acquired licenses to their estimated fair value of $6,113 based on available MVDDS auction value information.

Coal Act Health Benefit Adjustment

3.150

NACCO INDUSTRIES, INC. (DEC)

(In millions)	2004	2003	2002
Income before income taxes, minority interest, extraordinary gain (loss) and cumulative effect of accounting change	$52.3	$65.0	$59.7
Income tax provision	5.3	15.8	11.3
Income before minority interest, extraordinary gain (loss) and cumulative effect of accounting change	47.0	49.2	48.4
Minority interest income	0.4	0.6	1.2
Income before extraordinary gain (loss) and cumulative effect of accounting change	47.4	49.8	49.6
Extraordinary gain (loss), net of $0.2 tax expense in 2004, $1.0 tax expense in 2003 and $3.9 tax benefit in 2002	0.5	1.8	(7.2)
Income before cumulative effect of accounting change	47.9	51.6	42.4
Cumulative effect of accounting change, net of $0.7 tax expense in 2003	—	1.2	—
Net income	$47.9	$52.8	$42.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions)

Note 5. Extraordinary Gain (Loss)

The extraordinary items recognized in 2004, 2003 and 2002 relate to change in the estimated obligation to the Fund. The obligation to the Fund was initially recognized by Bellaire as an extraordinary charge in 1992 to accrue for the estimated costs associated with the Coal Act, which is discussed in more detail in Note 13. Revisions to this liability are recognized in the Consolidated Statements of Operations as an extraordinary item pursuant to the requirement of EITF No. 92-13, "Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992."

In 2000, the U.S. Court of Appeals for the Sixth Circuit upheld an opinion by the U.S. District Court in Columbus, Ohio, which ruled that late assignments of beneficiaries made to Bellaire were not allowed as a matter of law. As a result of this event and changes to certain other assumptions, such as the number of beneficiaries and expected health care costs, an extraordinary gain of $29.9 million was recognized in 2000, net of $16.1 million in taxes for the reduction in the estimated obligation to the Fund as of December 31, 2000. During 2002, the U.S. Supreme Court decided to review circuit court rulings whose decisions in matters relating to the Coal Act were in conflict. The U.S. Court of Appeals for the Sixth Circuit ruled that the late assignments of beneficiaries made by the Social Security Administration ("SSA") were invalid; while the U.S. Court of Appeals for the Fourth Circuit ruled that the SSA's late assignments of beneficiaries were valid.

On January 15, 2003, the U.S. Supreme Court decided that the SSA's late assignments of beneficiaries, made after October 1, 1993, are valid despite their untimeliness. As a result, the Company increased its estimate of the number of beneficiaries assigned to Bellaire. However, the effect of the assignment of additional beneficiaries from this decision is partially offset by a favorable decision from the U.S. Supreme Court in 2002 that assignment of certain retired coal miners to companies defined as "successors in interest to a signatory operator no longer in business" was not permitted under the Coal Act. This decision resulted in a reduction to the estimate of the number of beneficiaries assigned to Bellaire. Changes to the Company's estimate of (i) the number of beneficiaries as a result of these court decisions, (ii) future medical inflation rates and (iii) the amount that will be required to be paid to the Fund for premium payments related to late assignments for the period 1993 through 2002, resulted in an extraordinary charge of $7.2 million, net of $3.9 million tax benefit, to increase the estimated obligation to the Fund at December 31, 2002.

On July 15, 2003, the Fund filed suit against 214 defendant companies, including Bellaire, seeking a declaratory judgment requiring these defendants to pay the increased premium established by the SSA. If the Fund prevails the Company estimates it could incur additional expense within an estimated range of $0 to $5.0 million pre-tax.

As a result of lower than estimated inflation on premium payments and a lower than estimated number of assigned beneficiaries compared with previous estimates, expected future obligations related to the Fund decreased. As such, Bellaire recognized an extraordinary gain of $0.5 million, net of $0.2 million tax expense in 2004 and an extraordinary gain of $1.8 million, net of $1.0 million tax expense in 2003.

Note 13 (In Part): Self-Insurance and Other Liabilities

Self-insurance and other liabilities consist of the following:

	2004	2003
Undiscounted UMWA obligation	$ 29.8	$ 35.6
Present value of other closed mine obligations	18.5	18.6
Pension and other post-retirement benefits	95.4	79.3
Deferred compensation	41.5	29.7
Product liability	50.6	48.9
Other	35.3	37.2
	$271.1	$249.3

The UMWA obligation and the other closed mine obligations relate to Bellaire's former Eastern U.S. underground mining operations and the Indian Head Mine, which ceased operations in 1992.

The UMWA obligation is the Company's estimate of the long-term portion of the amount owed to the Fund as a result of the Coal Act. The Company's non-operating subsidiary, Bellaire, which formerly operated underground coal mines, primarily in the Eastern U.S., is obligated to provide payments to the Fund based on the provisions of the Coal Act. The Fund pays the medical expenses of certain United Mine Worker retirees and their beneficiaries. The Company estimates future obligations to the Fund in accordance with the Coal Act based on (1) the history of annual payments made since 1992, (2) an estimate of the number of retirees to be assigned to Bellaire, (3) an estimate of future medical inflation rates and (4) mortality tables. The accrual for this obligation changes due to changes in these estimates, as well as from results of judicial proceeding and legislation. See also Note 5. Annual cash payments of approximately $2.0 million, declining steadily over time to approximately $0.1 million, are expected to be made through 2050. The Company has recorded this obligation on an undiscounted basis.

EARNINGS PER SHARE

3.151 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.

3.152

MCKESSON CORPORATION (MAR)

(In millions, except per share amounts)	2004	2003	2002
Income (loss) after income taxes			
Continuing operations	$646.5	$562.1	$421.8
Discontinued operations	—	(3.0)	(3.2)
Discontinued operations—loss on sale	—	(3.7)	—
Net income	$646.5	$555.4	$418.6
Earnings (loss) per common share			
Diluted			
Continuing operations	$ 2.19	$ 1.90	$ 1.44
Discontinued operations	—	(0.01)	(0.01)
Discontinued operations—loss on sale	—	(0.01)	—
Total	$ 2.19	$ 1.88	$ 1.43
Basic			
Continuing operations	$ 2.23	$ 1.94	$ 1.48
Discontinued operations	—	(0.01)	(0.01)
Discontinued operations—loss on sale	—	(0.01)	—
Total	$ 2.23	$ 1.92	$ 1.47
Weighted average shares			
Diluted	298.6	298.8	298.1
Basic	290.0	289.3	285.2

FINANCIAL NOTES

8. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common share outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

The computations for basic and diluted earnings per share from continuing operations are as follows:

(In millions, except per share amounts)	2004	2003	2002
Income from continuing operations	$646.5	$562.1	$421.8
Interest expense on convertible junior subordinated debentures, net of tax benefit	6.2	6.2	6.2
Income from continuing operations—diluted	$652.7	$568.3	$428.0
Weighted average common shares outstanding:			
Basic	290.0	289.3	285.2
Effect of dilutive securities:			
Options to purchase common stock	2.8	3.5	7.0
Convertible junior subordinate debentures	5.4	5.4	5.4
Restricted stock	0.4	0.6	0.5
Diluted	298.6	298.8	298.1
Earnings per share from continuing operations:			
Basic	$ 2.23	$ 1.94	$ 1.48
Diluted	2.19	1.90	1.44

Approximately 37.8 million, 33.3 million and 27.4 million stock options were excluded from the computations of diluted net earnings per share in 2004, 2003 and 2002 as their exercise price was higher than the Company's average stock price.

3.153

SANMINA-SCI CORPORTATION (SEP)

(In thousands, except per share amounts)	2004	2003	2002
Income (loss) before extraordinary item	$ (14,981)	$(137,157)	$(2,696,753)
Extraordinary gain, net of tax of $0	3,583	—	—
Net income (loss)	$ (11,398)	$(137,157)	$(2,696,753)
Basic and diluted earnings (loss) per share:			
Income (loss) before extraordinary item	$ (0.03)	$ (0.27)	$ (5.60)
Extraordinary gain, net of tax	0.01	—	—
Net income (loss)	$ (0.02)	$ (0.27)	$ (5.60)
Shares used in computing per share amounts:			
Basic	515,803	510,102	481,985
Diluted	515,803	510,102	481,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings or loss per share includes dilutive common stock equivalents, using the treasury stock method, and assumes that the convertible debt instruments were converted into common stock upon issuance, if dilutive. For the years ended October 2, 2004, September 27, 2003, and September 28, 2002, 20,112,918, 30,454,412, and 36,737,598 potentially dilutive shares from the conversion of the convertible subordinated debt and after-tax interest expense of $44.4 million, $36.7 million, and $62.0 million, respectively, were not included in the computation of diluted earnings (loss) per share because to do so would be anti-dilutive. Stock options with exercise prices greater than the average fair market price for a period, which are defined as anti-dilutive, are not included in the diluted earnings (loss) per share calculations because of their anti-dilutive effect. For fiscal years 2004, 2003, and 2002, 57,143,973, 43,335,772, and 50,942,033 stock options respectively, were anti-dilutive and excluded from the diluted (loss) per share calculation due to either the exercise prices being greater than the average fair market price or due to Sanmina-SCI incurring net losses in each of these fiscal years. Contingently issuable stock, such as restricted stock, is included in the diluted earnings (loss) per share calculations unless anti-dilutive. For fiscal year 2004, 529,633 shares of restricted stock were anti-dilutive and therefore excluded from the diluted (loss) per share calculation. The following table sets forth the calculation of basic and diluted earnings per share:

(In thousands, except per share amounts)	2004	2003	2002
Numerator:			
Net income (loss)	$ (11,398)	$(137,157)	$(2,696,753)
Denominator:			
Weighted average shares—basic	515,803	510,102	481,985
Effect of dilutive potential common shares	—	—	—
Weighted average number of shares—diluted	515,803	510,102	481,985
Net income (loss) per share—basic	$ (0.02)	$ (0.27)	$ (5.60)
Net income (loss) per share—diluted	$ (0.02)	$ (0.27)	$ (5.60)

Sanmina-SCI recorded an extraordinary gain of $3.6 million in fiscal 2004. Excluding the extraordinary gain, the basic and diluted net loss per share for fiscal 2004 is $(0.03).

3.154

TIME WARNER INC. (DEC)

(Millions, except per share amounts)	2004	2003	2002
Income (loss) before discontinued operations and cumulative effect of accounting change	$ 3,209	$ 3,146	$(41,970)
Discontinued operations, net of tax	121	(495)	(1,012)
Income (loss) before cumulative effect of accounting change	3,330	2,651	(42,982)
Cumulative effect of accounting change, net of tax	34	(12)	(54,235)
Net income (loss)	$ 3,364	$ 2,639	$(97,217)
Basic income (loss) per common share before discontinued operations and cumulative efect of accounting change	$ 0.70	$ 0.70	$ (9.42)
Discontinued operations	0.03	(0.11)	(0.23)
Cumulative effect of accounting change	0.01	—	(12.17)
Basic net income (loss) per common share	$ 0.74	$ 0.59	$ (21.82)
Average basic common shares	4,560.2	4,506.0	4,454.9
Diluted income (loss) per common share before discontinued operations and cumulative effect of accounting change	$ 0.68	$ 0.68	$ (9.42)
Discontinued operations	0.03	(0.11)	(0.23)
Cumulative effect of accounting change	0.01	—	(12.17)
Diluted net income (loss) per common share	$ 0.72	$ 0.57	$ (21.82)
Average diluted common shares	4,694.7	4,623.7	4,454.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income (Loss) Per Common Share

Basic income (loss) per common share is computed by dividing the net income (loss) applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of Time Warner's common stock and Series LMCN-V common stock. Diluted income (loss) per common share adjusts basic income (loss) per common share for the effects of convertible securities, stock options, restricted stock and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Set forth below is a reconciliation of basic and diluted income (loss) per common share before discontinued operations and cumulative effect of accounting change:

(Millions, except per share amounts)	2004	2003	2002[a]
Income (loss) before discontinued operations and cumulative effect of accounting change—basic and diluted	$3,209	$3,146	$(41,970)
Average number of common shares outstanding—basic	4,560.2	4,506.0	4,454.9
Dilutive effect of stock options and restricted stock	57.4	55.2	—
Dilutive effect of mandatorily convertible preferred stock	77.1	62.5	—
Average number of common shares outstanding—diluted	4,694.7	4,623.7	4,454.9
Income (loss) per common share before discontinued operations and cumulative effect of accounting change: Basic	$0.70	$0.70	$(9.42)
Diluted	$0.68	$0.68	$(9.42)

[a] 2002 basic and diluted loss per common share are the same because the effect of Time Warner's stock options and convertible debt was antidilutive.

3.155

TYSON FOODS, INC. (SEP)

(In millions, except per share data)	2004	2003	2002
Net income	$ 403	$ 337	$ 383
Weighted average shares outstanding:			
Class A Basic	243	244	246
Class B Basic	102	102	102
Diluted	357	352	355
Earnings per share:			
Class A Basic	$1.20	$1.00	$1.13
Class B Basic	$1.08	$0.90	$1.02
Diluted	$1.13	$0.96	$1.08

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Capital Stock

The Company has two classes of capital stock, Class A common stock (Class A stock) and Class B common stock (Class B stock). Holders of Class B stock may convert such stock into Class A stock on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. Cash dividends cannot be paid to holders of Class B stock uless they are simultaneously paid to holders of Class A stock. The per share amount of the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock. The Company pays quarterly cash dividends to Class A and Class B shareholders. The Company paid Class A dividends per share of $0.16 and Class B dividends per share of $0.144 in fiscal years 2004, 2003 and 2002.

According to the Emerging Issues Task Force Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share" (EITF Issue No. 03-6), the Class B stock is considered a participating security requiring the use of two-class method for the computation of basic earnings per share, rather than the if-converted method as previously used. The two-class computation method for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Basic earnings per share reflect the application of EITF Issue No. 03-6 and was computed using the two-class method for all periods presented. The shares of Class B stock are considered to be participating convertible securities since the shares of Class B stock are convertible on a share-for-share basis into shares of Class A stock. Diluted earnings per share have been computed assuming the conversion of the Class B shares into Class A shares as of the beginning of each period.

Recently Issued Accounting Standards and Regulations (In Part)

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share." This issue involves the computation of earnings per share for companies that have multiple classes of common stock or have issued securities other than common stock that participate in dividends with common stock (participating securities). The EITF concluded that companies having participating securities are required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period. The Company adopted EITF Issue No. 03-6 in the fourth quarter of fiscal 2004. As required by EITF Issue No. 03-6, prior period earnings per share have been restated as follows:

	2003	2002
Earnings per share as previously reported		
Basic	$0.98	$1.10
Diluted	0.96	1.08
Earnings per share, restated in accordance with EITF Issue No. 03-6		
Class A Basic	1.00	1.13
Class B Basic	0.90	1.02
Diluted	0.96	1.08

Note Nineteen: Earnings Per Share

The weighted average common shares used in the computation of basic and diluted earnings per share were as follows:

(In millions, except per share data)	2004	2003	2002
Numerator:			
Net income	$ 403	$ 337	$ 383
Less dividends:			
Class A ($0.16/share)	40	40	41
Class B ($0.14/share)	15	14	15
Undistributed earnings	348	283	327
Class A undistributed earnings	253	206	239
Class B undistributed earnings	95	77	88
Total undistributed earnings	$ 348	$ 283	$ 327
Denominator:			
Denominator for basic earnings per share:			
Class A weighted average shares	243	244	246
Class B weighted average shares, and shares under if-converted method for diluted earnings per share	102	102	102
Effect of dilutive securities:			
Stock options and restricted stock	12	6	7
Denominator for diluted earnings per share—adjusted weighted average shares and assumed conversions	357	352	355
Class A Basic earnings per share	$1.20	$1.00	$1.13
Class B Basic earnings per share	$1.08	$0.90	$1.02
Diluted earnings per share	$1.13	$0.96	$1.08

Approximately two million, 11 million and seven million of the Company's option shares were antidilutive and were not included in the dilutive earnings per share calculation for fiscal years 2004, 2003 and 2002, respectively.

3.156

XEROX CORPORATION (DEC)

(In millions, except per-share data)	2004	2003	2002
Income from continuing operations before cumulative effect of change in accounting principle	$ 776	$ 360	$ 154
Gain on sale of ContentGuard, net of income taxes of $26	83	—	—
Income before cumulative effect of change in accounting principle	859	360	154
Cumulative effect of change in accounting principle	—	—	(63)
Net income	859	360	91
Less: Preferred stock dividends, net	(73)	(71)	(73)
Income available to common shareholders	$ 786	$ 289	$ 18
Basic earnings per share			
Income from continuing operations before cumulative effect of change in accounting principle	$0.84	$0.38	$0.11
Net earnings per share	$0.94	$0.38	$0.02
Diluted earnings per share			
Income from continuing operations before cumulative effect of change in accounting principle	$0.78	$0.36	$0.10
Net earnings per share	$0.86	$0.36	$0.02

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

Note 17: Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share assumes that any dilutive convertible preferred shares, convertible subordinated debentures, and convertible securities outstanding were converted, with related 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 the exercise price, less shares which could have been purchased by us with the related proceeds. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive.

The detail of the computation of basic and diluted EPS follows (shares in thousands):

	2004	2003	2002
Basic earnings per common share:			
Income from continuing operations before cumulative effect of change in accounting principle	$ 776	$ 360	$ 154
Accrued dividends on:			
Series C mandatory convertible preferred stock	(57)	(30)	—
Series B convertible preferred stock, net	(16)	(41)	(73)
Adjusted income from continuing operations before cumulative effect of change in accounting principle	703	289	81
Gain on sale of ContentGuard, net	83	—	—
Cumulative effect of change in accounting principle	—	—	(63)
Adjusted net income available to common shareholders	$ 786	$ 289	$ 18
Weighted average common shares outstanding	834,321	769,032	731,280
Basic earnings per share:			
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.84	$ 0.38	$ 0.11
Gain on sale of ContentGuard, net	0.10	—	—
Cumulative effect of change in accounting principle	—	—	(0.09)
Basic earnings per share	$ 0.94	$ 0.38	$ 0.02
Diluted earnings per common share:			
Income from continuing operations before cumulative effect of change in accounting principle	$ 776	$ 360	$ 154
ESOP expense adjustment, net	(6)	(35)	(73)
Accrued dividends on Series C mandatory convertible preferred stock	—	(30)	—
Interest on converitable securities, net of tax	51	—	—
Adjusted income from continuing operations before cumulative effect of change in accounting principle	821	295	81
Gain on sale of ContentGuard, net	83	—	—
Cumulative effect of change in accounting principle	—	—	(63)
Adjusted net income available to common shareholders	$ 904	$ 295	$ 18
Weighted average common shares outstanding	834,321	769,032	731,280
Common shares issuable with respect to:			
Stock options	14,198	8,273	5,401
Series B convertible preferred stock	17,359	51,082	70,463
Convertible securities	106,272	—	—
Series C mandatory convertible preferred stock	74,797	—	—
Adjusted weighted average shares outstanding	1,046,947	828,387	807,144
Diluted earnings per share:			
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.78	$ 0.36	$ 0.10
Gain on sale of ContentGuard, net of income taxes	0.08	—	—
Cumulative effect of change in accounting principle	—	—	(0.08)
Diluted earnings per share	$ 0.86	$ 0.36	$ 0.02

The 2004, 2003 and 2002 computation of diluted earnings per share did not include the effects of 38 million, 63 million and 64 million stock options, respectively, because their respective exercise prices were greater than the corresponding market value per share of our common stock.

In addition, in 2003 and 2002 the following potentially dilutive securities were not included in the computation of diluted EPS because to do so would have been anti-dilutive (in thousands of shares on weighted-average basis):

	2003	2002
Series C mandatory convertible preferred stock	43,656	—
Liability to subsidiary trust issuing preferred securities—Trust II	113,426	113,426
Convertible subordinated debentures	1,992	9,121
Total	159,074	122,547

All such securities were dilutive or converted to common stock in 2004.

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

	2004	2003	2002	2001
Reporting format:				
Included in statement of changes in stockholders' equity	485	488	469	450
Separate statement of comprehensive income	68	69	68	78
Combined statement of income and comprehensive income	22	23	25	31
	575	**580**	**562**	**559**
No comprehensive income reported	25	20	38	41
Total Companies	**600**	**600**	**600**	**600**
Tax effect disclosure in any statement:				
Amount of tax effect allocated to some, but not all, components	137	111	114	102
Amount of tax effect allocated to each component	89	89	73	74
Total amount of tax effect	11	16	16	9
	237	**216**	**203**	**185**
Tax effect disclosure in notes:				
Amount of tax effect allocated to some, but not all, components	65	71	67	51
Amount of tax effect allocated to each component	68	75	66	68
Total amount of tax effect	9	16	29	15
	142	**162**	**162**	**134**
Tax effect not disclosed in any statement	196	202	197	240
	575	**580**	**562**	**559**
No comprehensive income reported	25	20	38	41
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

	2004	2003	2002	2001
Comprehensive income reported in a statement of income and comprehensive income, or in a statement of comprehensive income				
Comprehensive income	56	59	46	63
Comprehensive income (loss)	23	26	27	28
Comprehensive loss	4	3	7	3
Comprehensive earnings	1	1	2	3
Other title	6	3	11	5
	90	**92**	**93**	**102**
Comprehensive income reported in a statement of changes in stockholders' equity				
Statement title does not refer to comprehensive income	398	406	395	403
Statement title does refer to comprehensive income	87	82	74	54
	485	**488**	**469**	**457**
No comprehensive income reported	25	20	38	41
Total Companies	**600**	**600**	**600**	**600**

Included in Statement of Changes in Stockholders' Equity

4.08

BAXTER INTERNATIONAL INC. (DEC)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

	2004		2003		2002	
(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock						
Beginning of year	649	$ 649	627	$ 627	609	$ 609
Common stock issued	—	—	22	22	15	15
Common stock issued for acquisitions	—	—	—	—	3	3
Other	(1)	(1)	—	—	—	—
End of year	648	648	649	649	627	627
Common stock in treasury						
Beginning of year	37	(1,863)	27	(1,326)	10	(328)
Purchases of common stock	1	(18)	15	(714)	23	(1,169)
Common stock issued under employee benefit plans	(8)	370	(5)	177	(6)	171
End of year	30	(1,511)	37	(1,863)	27	(1,326)
Additional contributed capital						
Beginning of year		3,786		3,236		2,828
Common stock issued		—		622		399
Common stock issued for acquisitions		—		—		157
Equity units issued		—		—		(157)
Common stock issued under employee benefit plans		(189)		(72)		9
End of year		3,597		3,786		3,236
Retained earnings						
Beginning of year		2,230		1,740		1,151
Net income		388		866		771
Common stock cash dividends		(359)		(356)		(346)
Change to equity method of accounting for a minority investment		—		(14)		—
Distribution of Edwards Lifesciences Corporation common stock to stockholders		—		(6)		164
End of year		2,259		2,230		1,740
Accumulated other comprehensive loss						
Beginning of year		(1,420)		(1,264)		(422)
Other comprehensive income (loss)		132		(156)		(842)
End of year		(1,288)		(1,420)		(1,264)
Total stockholders' equity		$ 3,705		$ 3,382		$ 3,013
Comprehensive income (loss)						
Net income		$ 388		$ 866		$ 771
Currency translation adjustments		303		502		167
Unrealized net loss on hedges of net investments in foreign operations, net of tax benefit of $134 in 2004, $232 in 2003, and $223 in 2002		(171)		(384)		(370)
Unrealized net gain (loss) on other hedging activities, net of tax expense (benefit) of $21 in 2004, ($54) in 2003 and ($67) in 2002		47		(106)		(114)
Unrealized net gain (loss) on marketable equity securities, net of tax expense (benefit) of $1 in 2004, $1 in 2003 and ($5) in 2002		1		2		(8)
Additional minimum pension liability, net of tax benefit of $30 in 2004, $86 in 2003 and $287 in 2002		(48)		(170)		(517)
Other comprehensive income (loss)		132		(156)		(842)
Total comprehensive income (loss)		$ 520		$ 710		$ (71)

4.09

ROHM AND HAAS COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	ESOP	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Comprehensive Income (Loss)
2002								
Balance January 1, 2002	$605	$1,961	$1,742	$(208)	$(113)	$(146)	$3,841	
Net loss			(570)					$(570)
Current period changes in fair value, net of income taxes of ($3)						5		5
Reclassification to earnings, net of income taxes of $3						(6)		(6)
Cumulative translation adjustment, net of income taxes of $47						53		53
Minimum pension liability, net of income taxes of $9						(50)		(50)
Total comprehensive loss								$(568)
Common dividends ($.82 per share)			(181)					
Tax benefit on ESOP			3					
Common stock issued:								
Under bonus plan		10		8				
From ESOP					6			
Balance December 31, 2002	$605	$1,971	$ 994	$(200)	$(107)	$(144)	$3,119	
2003								
Net earnings			280					$ 280
Current period changes in fair value, net of income taxes of $3						(5)		(5)
Reclassification to earnings, net of income taxes of ($2)						4		4
Cumulative translation adjustment, net of income taxes of $16						89		89
Minimum pension liability, net of income taxes of $12						4		4
Total comprehensive income								$ 372
Common dividends ($.86 per share)			(191)					
Tax benefit on ESOP			4					
Common stock issued:								
Under bonus plan		31		15				
From ESOP					7			
Balance December 31, 2003	$605	$2,002	$1,087	$(185)	$(100)	$ (52)	$3,357	
2004								
Net earnings			497					$ 497
Current period changes in fair value, net of income taxes of $3						(6)		(6)
Reclassification to earnings, net of income taxes of ($3)						5		5
Cumulative translation adjustment, net of income taxes of ($59)						3		3
Minimum pension liability, net of income taxes of $13						(30)		(30)
Total comprehensive income								$ 469
Common dividends ($.97 per share)			(217)					
Tax benefit on ESOP			3					
Common stock issued:								
Under bonus plan		60		19				
From ESOP					6			
Balance December 31, 2004	$605	$2,062	$1,370	$(166)	$ (94)	$ (80)	$3,697	

4.10

TEKTRONIX, INC. (MAY)

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance May 26, 2001	92,077	$225,003	$778,428	$ 9,914	$1,013,345
Components of comprehensive income (loss):					
Net earnings	—	—	32,689	—	32,689
Minimum pension liability (net of tax of ($57,055))	—	—	—	(91,716)	(91,716)
Currency adjustment (net of tax of $2,232)	—	—	—	3,454	3,454
Cash flow hedge loss (net of tax of ($42))	—	—	—	(65)	(65)
Unrealized holding gains—net (net of tax of $185)	—	—	—	290	290
Total comprehensive loss					(55,348)
Shares issued to employees, net of forfeitures	498	11,239	—	—	11,239
Shares repurchased in open market	(2,066)	(5,207)	(36,835)	—	(42,042)
Balance May 25, 2002	90,509	231,035	774,282	(78,123)	927,194
Components of comprehensive income (loss):					
Net earnings	—	—	25,329	—	25,329
Minimum pension liability (net of tax of ($60,488))	—	—	—	(95,956)	(95,956)
Currency adjustment (net of tax of $12,321)	—	—	—	19,271	19,271
Unrealized holding gains—net (net of tax of $2,308)	—	—	—	3,610	3,610
Total comprehensive loss					(47,746)
Shares issued to employees, net of forfeitures	559	8,462	(321)	—	8,141
Shares repurchased in open market	(6,224)	(16,264)	(92,099)	—	(108,363)
Balance May 31, 2003	84,844	223,233	707,191	(151,198)	779,226
Components of comprehensive income (loss):					
Net earnings	—	—	116,095	—	116,095
Minimum pension liability (net of tax of $9,661)	—	—	—	13,924	13,924
Currency adjustment (net of tax of $6,703)	—	—	—	10,482	10,482
Unrealized holding loss (net of tax of ($5,292))	—	—	—	(8,276)	(8,276)
Total comprehensive income					132,225
Dividends paid	—	—	(10,176)	—	(10,176)
Shares issued to employees, net of forfeitures	1,991	41,685	—	—	41,685
Shares repurchased in open market	(2,656)	(7,651)	(64,729)	—	(72,380)
Balance May 29, 2004	84,179	$257,267	$748,381	$(135,068)	$ 870,580

Separate Statement of Comprehensive Income

4.11

ANADARKO PETROLEUM CORPORATION (DEC)

__Consolidated Statements of Comprehensive Income__

(Millions)	2004	2003	2002
Net income available to common stockholders	$1,601	$1,287	$ 825
Add: preferred stock dividends	5	5	6
Net income available to common stockholders before preferred stock dividends	1,606	1,292	831
Other comprehensive income (loss), net of income taxes			
Unrealized gain (loss) on derivative instruments:			
Unrealized loss during the period[1]	(165)	(154)	(100)
Reclassification adjustment for loss included in net income[2]	262	119	15
Total unrealized gain (loss) on derivative instruments	97	(35)	(85)
Foreign currency translation adjustments[3]	182	337	9
Minimum pension liability adjustment[4]	(20)	18	(73)
Total other comprehensive income	259	320	(149)
Comprehensive income	$1,865	$1,612	$ 682
[1] net of income tax benefit of:	$ 96	$ 91	$ 58
[2] net of income tax expense of:	(153)	(67)	(9)
[3] net of income tax expense of:	(22)	(59)	—
[4] net of income tax benefit (expense) of:	11	(11)	42

4.12

CENTURYTEL, INC. (DEC)

__Consolidated Statements of Comprehensive Income__

(Dollars in thousands)	2004	2003	2002
Net income	$337,244	$344,707	$801,624
Other comprehensive income, net of taxes			
Minimum pension liability adjustment:			
Minimum pension liability adjustment, net of ($5,916), $19,312 and ($19,312) tax	(9,491)	35,864	(35,864)
Unrealized holding gains:			
Unrealized holding gains related to marketable securities arising during the period, net of $940 tax	1,508	—	—
Derivative instruments:			
Net losses on derivatives hedging variability of cash flows, net of ($219), ($36) and ($496) tax	(351)	(67)	(921)
Less: reclassification adjustment for losses included in net income, net of $487 and $44 tax	—	906	82
Comprehensive income	$328,910	$381,410	$764,921

Combined Statement of Net Income and Comprehensive Income

4.13

ADOLPH COORS COMPANY (DEC)

Consolidated Statements of Income and Comprehensive Income

(In thousands)	2004	2003	2002
Sales—domestic and international	$ 5,819,727	$ 5,387,220	$ 4,956,947
Beer excise taxes	(1,513,911)	(1,387,107)	(1,180,625)
Net sales	4,305,816	4,000,113	3,776,322
Cost of goods sold	(2,741,694)	(2,586,783)	(2,414,530)
Gross profit	1,564,122	1,413,330	1,361,792
Other operating expenses			
Marketing, general and administrative	(1,223,219)	(1,105,959)	(1,057,240)
Special items, net	7,522	—	(6,267)
Total other operating expenses	(1,215,697)	(1,105,959)	(1,063,507)
Operating income	348,425	307,371	298,285
Other (expense) income			
Interest income	19,252	19,245	21,187
Interest expense	(72,441)	(81,195)	(70,919)
Other income, net	12,946	8,397	8,047
Total other expense	(40,243)	(53,553)	(41,685)
Income before income taxes	308,182	253,818	256,600
Income tax expense	(95,228)	(79,161)	(94,947)
Income before minority interests	212,954	174,657	161,653
Minority interests	(16,218)	—	—
Net Income	$ 196,736	$ 174,657	$ 161,653
Other comprehensive income, net of tax			
Foreign currency translation adjustments	$ 123,011	$ 147,803	$ 70,884
Unrealized (loss) gain on derivative instruments	(217)	282	15,358
Minimum pension liability adjustment	(24,048)	(15,031)	(212,092)
Reclassification adjustments	(4,686)	4,235	4,993
Comprehensive income	$ 290,796	$ 311,946	$ 40,796

4.14

POTLATCH CORPORATION (DEC)

Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands)	2004	2003	2002
Net sales	$1,351,472	$1,192,437	$1,106,306
Costs and expenses:			
Depreciation, amortization and cost of fee timber harvested	88,319	88,987	97,986
Materials, labor and other operating expenses	1,083,660	1,006,786	921,576
Selling, general and administrative expenses	85,571	75,800	72,053
Restructuring charges	1,193	(476)	8,963
	1,258,743	1,171,097	1,100,578
Earnings from operations	92,729	21,340	5,728
Interest expense, net of capitalized interest of $383 ($2,907 in 2003 and $300 in 2002)	(45,863)	(48,172)	(59,882)
Debt retirement costs	(25,186)	(248)	(15,360)
Interest income	3,617	14,090	1,939
Earnings (loss) before taxes	25,297	(12,990)	(67,575)
Provision (benefit) for taxes	9,967	(9,148)	(26,354)
Earnings (loss) from continuing operations	15,330	(3,842)	(41,221)
Discontinued operations			
Earnings (loss) from discontinued operations (including gain (loss) on disposal of $269,587, $(2,745) and $(276,218))	422,017	89,456	(316,656)
Income tax provision (benefit)	166,098	34,887	(123,496)
	255,919	54,569	(193,160)
Net earnings (loss)	$ 271,249	$ 50,727	$ (234,381)
Other comprehensive gain (loss), net of tax:			
Cash flow hedges:			
Net derivative gains (losses), net of income tax provision (benefit) of $(44), $44 and $0	(68)	68	—
Minimum pension liability adjustment, net of income tax provision (benefit) of $20,554, $(239) and $(21,231)	32,178	(374)	(33,207)
Comprehensive income (loss)	$ 303,359	$ 50,421	$ (267,588)

TAX EFFECT DISCLOSURE

4.15

CITIZENS COMMUNICATIONS COMPANY (DEC)

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)	2004	2003	2002
Net income (loss)	$72,150	$187,852	$(682,897)
Other comprehensive income (loss), net of tax and reclassifications adjustments*	(27,893)	30,493	(107,076)
Total comprehensive income (loss)	$44,257	$218,345	$(789,973)

* Consists of unrealized holding (losses)/gains of marketable securities, realized gains taken to income as a result of the sale of securities and minimum pension liability (see Note 22).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Comprehensive Income (Loss)

Comprehensive income consists of net income (loss) and other gains and losses affecting shareowners' investment and minimum pension liability that, under GAAP, are excluded from net income (loss).

Our other comprehensive income (loss) for the years ended December 31, 2004, 2003 and 2002 is as follows:

(In thousands)	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
2004			
Net unrealized losses on securities:			
Net unrealized holding losses arising during period	$ (1,901)	$ (742)	$ (1,159)
Minimum pension liability	(17,372)	(6,645)	(10,727)
Less: Reclassification adjustments for net gains realized in net income	(26,247)	(10,240)	(16,007)
Other comprehensive loss	$ (45,520)	$(17,627)	$ (27,893)
2003			
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	$ 14,470	$ 5,539	$ 8,931
Minimum pension liability	34,935	13,373	21,562
Other comprehensive income	$ 49,405	$ 18,912	$ 30,493
2002			
Net unrealized losses on securities:			
Net unrealized holding losses arising during period	$(101,137)	$(38,078)	$ (63,059)
Minimum pension liability	(180,798)	(69,209)	(111,589)
Add: Reclassification adjustments for net losses realized in net loss	108,376	40,804	67,572
Other comprehensive loss	$(173,559)	$(66,483)	$(107,076)

4.16

EMC CORPORATION (DEC)

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)	2004	2003	2002
Net income (loss)	$871,189	$496,108	$(118,706)
Other comprehensive income (loss), net of taxes (benefit):			
Foreign currency translation adjustments, net of taxes of $4,979, $7,677 and $2,909	(543)	1,068	10,565
Equity adjustment for minimum pension liability, net of taxes (benefit) of $0, $53,880 and $(27,466)	—	89,800	(47,606)
Changes in market value of investments, net of taxes (benefit) of $(11,900), $(20,083) and $17,597	(36,545)	(35,183)	16,640
Changes in market value of derivatives, net of taxes (benefit) of $0, $0, and $(9)	(31)	—	(80)
Other comprehensive income (loss)	(37,119)	55,685	(20,481)
Comprehensive income (loss)	$834,070	$551,793	$(139,187)

4.17

GENERAL MOTORS CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in millions)	Total Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2002	$1,020	$21,519		$ 9,463	$(12,295)	$ 19,707
Shares reacquired	—	(2,086)		—	—	(2,086)
Shares issued	12	2,150		—	—	2,162
Comprehensive income:						
Net income	—	—	$ 1,736	1,736	—	1,736
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	135	—	—	—
Unrealized gains on derivatives	—	—	102	—	—	—
Unrealized losses on securities	—	—	(140)	—	—	—
Minimum pension liability adjustment	—	—	(13,634)	—	—	—
Other comprehensive loss	—	—	(13,537)	—	(13,537)	(13,537)
Comprehensive loss	—	—	$(11,801)	—	—	—
Cash dividends	—	—		(1,168)	—	(1,168)
Balance at December 31, 2002	$1,032	$21,583		$10,031	$(25,832)	$ 6,814

(continued)

(Dollars in millions)	Total Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2002	$1,032	$21,583		$10,031	$(25,832)	$ 6,814
Shares issued	16	1,324		—	—	1,340
Comprehensive income:						
Net income	—	—	$ 3,822	3,822	—	3,822
Other comprehensive income:						
Foreign currency translation adjustments	—	—	969	—	—	—
Unrealized gains on derivatives	—	—	256	—	—	—
Unrealized gains on securities	—	—	246	—	—	—
Minimum pension liability adjustment	—	—	20,755	—	—	—
Other comprehensive income	—	—	22,226	—	22,226	22,226
Comprehensive income	—	—	$ 26,048	—	—	—
Effect of Hughes transactions	(111)	(8,056)				(8,167)
Stock options		334				334
Delphi spin-off adjustment	—	—		20	—	20
Cash dividends	—	—		(1,121)	—	(1,121)
Balance at December 31, 2003	$ 937	$15,185		$12,752	$ (3,606)	$25,268
Shares issued	5	138		—	—	143
Comprehensive income:						
Net income	—	—	$ 2,805	2,805	—	2,805
Other comprehensive income:						
Foreign currency translation adjustments	—	—	621	—	—	—
Unrealized gains on derivatives	—	—	538	—	—	—
Unrealized gains on securities	—	—	133	—	—	—
Minimum pension liability adjustment	—	—	(571)	—	—	—
Other comprehensive income	—	—	721	—	721	721
Comprehensive income	—	—	$ 3,526	—	—	—
Stock options		(82)				(82)
Cash dividends	—	—		(1,129)	—	(1,129)
Balance at December 31, 2004	$ 942	$15,241		$14,428	$ (2,885)	$27,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Stockholders' Equity

Other Comprehensive Income

The changes in the components of other comprehensive income (loss) are reported net of income taxes, as follows (dollars in millions):

	2004			2003			2002		
	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount	Pre-Tax Amount	Tax Exp. (Credit)	Net Amount
Foreign currency translation adjustments	$1,237	$616	$621	$ 1,642	$ 673	$ 969	$ 67	$ (18)	$ 85
Unrealized (loss) gain on securities:									
Unrealized holding (loss) gain	299	114	185	465	166	299	(501)	(166)	(335)
Reclassification adjustment	(80)	(28)	(52)	(84)	(31)	(53)	611	220	391
Net unrealized gain	219	86	133	381	135	246	110	54	56
Minimum pension liability adjustment	(874)	(303)	(571)	33,378	12,623	20,755	(21,746)	(8,127)	(13,619)
Net unrealized gain on derivatives	701	163	538	329	73	256	151	49	102
Amounts attributable to Hughes	—	—	—	—	—	—	(300)	(139)	(161)
Other comprehensive income (loss)	$1,283	$562	$721	$35,730	$13,504	$22,226	$(21,718)	$(8,181)	$(13,537)

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

	2004	2003	2002	2001
Cumulative translation adjustments	490	477	468	462
Minimum pension liability adjustments	395	389	373	254
Changes in fair value of derivatives	325	311	325	287
Unrealized losses/gains on certain investments	270	268	268	273
Other	3	2	4	4

Cumulative Translation Adjustments

4.23

EL PASO CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	2004	2003	2002
Net loss	$(948)	$(1,928)	$(1,875)
Foreign currency translation adjustments (net of income tax of $10 in 2004)	7	159	(20)
Minimum pension liability accrual (net of income tax of $11 in 2004, $7 in 2003 and $20 in 2002)	(22)	11	(35)
Net gains (losses) from cash flow hedging activities:			
Unrealized mark-to-market gains (losses) arising during period (net of income tax of $8 in 2004, $50 in 2003 and $53 in 2002)	22	101	(90)
Reclassification adjustments for changes in initial value to settlement date (net of income tax of $8 in 2004, $11 in 2003 and $40 in 2002)	30	(25)	(73)
Other	—	—	1
Other comprehensive income (loss)	37	246	(217)
Comprehensive loss	$(911)	$(1,682)	$(2,092)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Foreign Currency Transactions and Translation

We record all currency transaction gains and losses in income. These gains or losses are classified in our income statement based upon the nature of the transaction that gives rise to the currency gain or loss. For sales and purchases of commodities or goods, these gains or losses are included in operating revenue or expense. These gains and losses were insignificant in 2004, 2003 and 2002. For gains and losses arising through equity investees, we record these gains or losses as equity earnings. For gains or losses on foreign denominated debt, we include these gains or losses as a component of other expense. For the years ended December 31, 2004, 2003 and 2002, we recorded net foreign currency losses of $17 million, $100 million and $91 million primarily related to currency losses on our Euro-denominated debt. The U.S. dollar is the functional currency for the majority of our foreign operations. For foreign operations whose functional currency is deemed to be other than the U.S. dollar, assets and liabilities are translated at year-end exchange rates and the translation effects are included as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. The net cumulative currency translation gain recorded in accumulated other comprehensive income was $52 million and $45 million at December 31, 2004 and 2003. Revenues and expenses are translated at average exchange rates prevailing during the year.

4.24

SMURFIT-STONE CONTAINER CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock		Preferred Stock						
(In millions, except share data)	Number of Shares	Par Value, $.01	Number of Shares	Amount	Additional Paid-In Capital	Unamortized Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2002	243,902,361	$2	4,599,300	$76	$3,833	$—	$(1,296)	$(130)	$2,485
Comprehensive income (loss)									
Net income							65		65
Other comprehensive income (loss)									
Deferred hedge gain, net of tax expenses of $7								11	11
Unrealized holding loss on marketable securities, net of tax of $0								(1)	(1)
Foreign currency translation adjustment, net of tax expenses of $4								7	7
Minimum pension liability adjustment, net of tax benefit of $162								(250)	(250)
Comprehensive income (loss)									(168)
Proceeds from stock transaction					1				1
Issuance of common stock under stock option and restricted stock plans	676,088				11	(2)			9
Amortization of restricted stock						1			1
Preferred stock dividends and accretion				3			(11)		(8)
Balance at December 31, 2002	244,578,449	$2	4,599,300	$79	$3,845	$(1)	$(1,242)	$(363)	$2,320

(continued)

	Common Stock		Preferred Stock						
(In millions, except share data)	Number of Shares	Par Value, $.01	Number of Shares	Amount	Additional Paid-In Capital	Unamortized Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2002	244,578,449	$2	4,599,300	$79	$3,845	$(1)	$(1,242)	$(363)	$2,320
Comprehensive income (loss)									
Net loss							(197)		(197)
Other comprehensive income (loss)									
Deferred hedge gain, net of tax of $0								1	1
Foreign currency translation adjustment, net of tax expense of $13								23	23
Minimum pension liability adjustment, net of tax expense of $32								50	50
Comprehensive income (loss)									(123)
Issuance of common stock under stock option and restricted stock plans	5,969,263	1			81	(1)			81
Preferred stock dividends and accretion				3			(11)		(8)
Balance at December 31, 2003	250,547,712	3	4,599,300	82	3,926	(2)	(1,450)	(289)	2,270
Comprehensive income (loss)									
Net loss							(46)		(46)
Other comprehensive income (loss)									
Deferred hedge loss, net of tax benefit of $4								(7)	(7)
Foreign currency translation adjustment, net of tax benefit of $2								(4)	(4)
Minimum pension liability adjustment, net of tax benefit of $7								(14)	(14)
Comprehensive income (loss)									(71)
Issuance of common stock under stock option and restricted stock plans	3,690,933				73	(7)			66
Amortization of restricted stock						2			2
Preferred stock dividends and accretion				3			(11)		(8)
Balance at December 31, 2004	254,238,645	$3	4,599,300	$85	$3,999	$(7)	$(1,507)	$(314)	$2,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions)

1 (In Part): Significant Accounting Policies

Foreign Currency Translation

The functional currency for Canadian operations is the U.S. dollar. Fluctuations in Canadian dollar monetary assets and liabilities result in gains or losses which are credited or charged to income. Foreign currency transactional gains or losses are also credited or charged to income.

The Company's remaining foreign operations' functional currency is the applicable local currency. Assets and liabilities for these foreign operations are translated at the exchange rate in effect at the balance sheet date, and income and expenses are translated at average exchange rates prevailing during the year. Translation gains or losses are included within stockholders' equity as part of accumulated other comprehensive income (loss) ("OCI") (See Note 18).

18. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), net of tax is as follows:

	Foreign Currency Translation Adjustment	Minimum Pension Liability	Unrealized Gain (Loss) on Marketable Securities	Deferred Hedge Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2002	$(19)	$(101)	$ 1	$(11)	$(130)
Net changes in fair value of hedging transactions				4	4
Net loss reclassified into earnings				7	7
Current period change	7	(250)	(1)		(244)
Balance at December 31, 2002	(12)	(351)			(363)
Net changes in fair value of hedging transactions				3	3
Net gain reclassified into earnings				(2)	(2)
Exchange transaction	20				20
Current period change	3	50			53
Balance at December 31, 2003	11	(301)		1	(289)
Net changes in fair value of hedging transactions				(4)	(4)
Net gain reclassified into earnings				(3)	(3)
Current period change	(4)	(14)			(18)
Balance at December 31, 2004	$ 7	$(315)	$—	$ (6)	$(314)

Minimum Pension Liability Adjustments

4.25

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

Consolidated Statements of Shareholders' Equity

(Millions of dollars, except for share data)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shares in Trust	Total
Balance 30 September 2001	215,462,620	$249.4	$384.9	$3,965.9	$(452.5)	$(768.8)	$(273.1)	$3,105.8
Comprehensive income:								
Net income				525.4				525.4
Net gain on derivatives, net of income tax of $.3					1.1			1.1
Translation adjustments, net of income tax of $29.8					50.1			50.1
Net change in unrealized holding gains, net of income tax of $1.6					(7.4)			(7.4)
Change in minimum pension liability, net of income tax of $81.4					(158.2)			(158.2)
Comprehensive income							411.0	
Issuance of treasury shares and shares in trust for stock options and award plans	3,072,503		30.3			1.0	68.9	100.2
Tax benefit of stock option and award plans			21.9					21.9
Cash dividends ($.82 per share)				(178.5)				(178.5)
Balance 30 September 2002	218,535,123	$249.4	$437.1	$4,312.8	$(566.9)	$(767.8)	$(204.2)	$3,460.4
Comprehensive income:								
Net income				397.3				397.3
Net loss on derivatives, net of income tax of $2.5					(5.1)			(5.1)
Translation adjustments, net of income tax of $60.3					146.8			146.8
Net change in unrealized holding gains, net of income tax of $3.1					5.1			5.1
Change in minimum pension liability, net of income tax of $71.4					(147.1)			(147.1)
Comprehensive income								397.0
Issuance of treasury shares and shares in trust for stock options and award plans	2,888,356		34.6			1.7	60.1	96.4
Tax benefit of stock option and award plans			22.2					22.2
Cash dividends ($.88 per share)				(193.5)				(193.5)
Balance 30 September 2003	221,423,479	$249.4	$493.9	$4,516.6	$(567.2)	$(766.1)	$(144.1)	$3,782.5
Comprehensive income:								
Net income				604.1				604.1
Net loss on derivatives, net of income tax of $.4					(.6)			(.6)
Translation adjustments, net of income tax of $30.1					60.0			60.0
Net change in unrealized holding gains, net of income tax of $4.6					7.7			7.7
Change in minimum pension liability, net of income tax of $29.9					59.4			59.4
Comprehensive income								730.6
Issuance of treasury shares and shares in trust for stock options and award plans	4,351,297		32.5			1.3	105.3	139.1
Tax benefit of stock option and award plans			25.4					25.4
Cash dividends ($1.04 per share)				(233.6)				(233.6)
Balance 30 September 2004	225,774,776	$249.4	$551.8	$4,887.1	$(440.7)	$(764.8)	$ (38.8)	$4,444.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars, except for share data)

18 (In Part): Retirement Benefits

Defined Benefit Pension Plans (In Part)

The following table reflects the change in the projected benefit obligation (PBO) based on the measurement date:

	2004	2003
Obligation at beginning of year	$2,215.1	$1,780.1
Service cost	73.5	59.3
Interest cost	129.2	117.5
Amendments	.9	10.2
Actuarial (gain) loss	(17.3)	247.8
Special termination benefits, settlements and curtailments	(23.1)	12.5
Participant contributions	7.4	7.9
Benefits paid	(76.0)	(70.9)
Currency translation/other	80.0	50.7
Obligation at end of year	$2,389.7	$2,215.1

The PBO is the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases.

The following table sets forth the weighted average assumptions used in the calculation of the PBO:

	2004	2003
Discount rate	5.9%	5.8%
Rate of compensation increase	4.2%	4.2%

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The following table summarizes the change in the fair value of assets of the pension plans based on the measurement date:

	2004	2003
Beginning of year	$1,147.5	$1,012.5
Actual return on plan assets	146.9	104.5
Company contributions	270.8	61.6
Participant contributions	7.4	7.9
Benefits paid	(76.0)	(70.9)
Settlements	(24.1)	—
Currency translation/other	38.4	31.9
End of year	$1,510.9	$1,147.5

To the extent the expected return on plan assets varies from the actual return, an actuarial gain or loss results.

The expected return on plan asset assumption is based on an estimated weighted average of long-term returns of major asset classes. In determining asset class returns, the company takes into account long-term returns of major asset classes, historical performance of plan assets and related value added of active management, as well as the current interest rate environment. Asset allocation is determined by an asset/liability study that takes into account plan demographics, asset returns and acceptable levels of risk.

Projected benefit payments, which reflect expected future service, are as follows:

2005	$ 80.8
2006	79.9
2007	85.8
2008	89.3
2009	94.4
2010–2014	557.0

These estimated benefit payments are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

The funded status of the pension plans (plan assets less projected benefit obligation) reconciled to the amount recognized in the balance sheet is as follows:

	2004	2003
Funded status	$(878.8)	$(1,067.6)
Unrecognized actuarial loss	815.1	866.6
Unrecognized prior service cost	19.9	23.0
Unrecognized net transition liability	.6	.7
Employer contributions for U.K. and Belgium after the measurement date	6.2	—
Net amount recognized	$ (37.0)	$ (177.3)

The unrecognized actuarial loss represents the actual changes in the estimated obligation and plan assets that have not yet been recognized in either the balance sheer or income statement. Actuarial gains and losses are not recognized immediately, but instead are accumulated as a part of the unrecognized net loss balance and amortized into net periodic pension cost over the average remaining service period of participating employees as certain thresholds are met.

The accumulated benefit obligation (ABO) is the actuarial present value of benefits attributed to employee service rendered to date, but does not include the effects of future pay. At a minimum, the consolidated balance sheet as of the fiscal year end should reflect an amount equal to the unfunded ABO.

The accumulated benefit obligation for all pension plans was $1,961.5 and $1,815.8 at the end of 2004 and 2003, respectively.

The following table provides information on pension plans where the ABO exceeds the value of plan assets:

	2004	2003
PBO	$2,370.2	$2,141.0
ABO	1,948.3	1,758.4
Plan assets	1,493.2	1,072.6

Included in the table above are several pension arrangements that are not funded because of jurisdictional practice. The ABO and PBO related to these plans for 2004 were $82.6 and $105.3, respectively.

Comprehensive income within shareholders' equity increased $59.4 (after-tax) due to the net reduction of an additional minimum liability. The reduction in the additional minimum liability resulted principally from improved plan asset positions.

In 2003, a $147.1 after-tax charge was recorded to comprehensive income within shareholders' equity due to the recognition of an additional minimum liability. The increase in the additional minimum liability resulted principally from the decline in the discount rate.

The following table summarizes the amounts recognized on the company's consolidated balance sheet:

	2004	2003
Prepaid benefit cost	$ 4.9	$ 11.5
Accrued benefit liability	(453.9)	(689.4)
Intangible asset	21.0	22.8
Accumulated other comprehensive income—pretax	391.0	477.8
Net amount recognized	$ (37.0)	$(177.3)

4.26

STEWART & STEVENSON SERVICES, INC. (JAN)

Consolidated Statements of Comprehensive Income

(In thousands)	2005	2004	2003
Net earnings (loss)	$ 4,978	$(53,203)	$ (7,201)
Change in additional minimum pension liability, net of tax of $(5,559), $(2,191) and $(6,204)	(9,882)	(3,896)	(10,906)
Unrealized income (loss) on forward contracts, net of tax of $(174), $(10) and $333	(310)	163	418
Currency translation loss, net of tax of $(181), $(54) and $(1,768)	(322)	(98)	(2,469)
Comprehensive loss	$(5,536)	$(57,034)	$(20,158)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Pensions and Other Postretirement Benefits

The Company accounts for its defined benefit pension plans and its defined benefit postretirement medical plan in accordance with SFAS No. 87, "Employers'. Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. These standards require that amounts recognized in the financial statements be determined on an actuarial basis. Significant assumptions involved in determining the Company's pension and other postretirement benefit expense include the expected return on plan assets, expected healthcare cost and compensation increases and the discount rate for calculating future liability. The assumed long-term rate of return on assets is applied to a calculated value of plan assets which results in an estimated return on plan assets that is included in current year pension income or expense. When the accumulated benefit obligation exceeds the fair value of defined benefit plan assets, the Company reflects the difference as an increase in pension liability with an offsetting charge to shareholder's equity (net of tax) through other comprehensive income (rather than net income).

Note 2. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following components, net of tax, at January 31:

(In thousands)	Fiscal 2004	Fiscal 2003
Accumulated additional minimum pension liability	$(32,362)	$(22,480)
Unrealized income on forward contracts	—	310
Currency translation loss	(3,686)	(3,364)
Accumulated other comprehensive loss	$(36,048)	$(25,534)

Note 13 (In Part): Employee Pension and Other Benefit Plans

Defined Benefit Plans (In Part)

The following tables include pension benefits information for the noncontributory defined benefit pension plans and the postretirement medical plan discussed above, as well as an unfunded defined benefit retirement plan for non-employee directors. The changes in benefit obligation, plan assets and funded status of the plans, measured as of January 31, 2005 and 2004, and the amounts recognized in the consolidated balance sheets follow:

	Pension Benefits		Other Postretirement Benefits	
(In thousands)	Fiscal 2004	Fiscal 2003	Fiscal 2004	Fiscal 2003
Change in benefit obligation:				
Benefit obligation at beginning of year	$128,371	$125,572	$ 10,852	$ 21,477
Service cost	532	2,595	—	552
Interest cost	7,755	7,752	631	1,038
Amendments	—	—	(8,650)	(10,589)
Curtailment gain	—	(14,734)	—	(142)
Participant contributions	—	—	407	327
Benefits paid	(5,976)	(5,023)	(1,351)	(1,395)
Actuarial loss (gain)	16,673	12,209	1,364	(416)
Benefit obligation at end of year	$147,355	$128,371	$ 3,253	$ 10,852
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 91,563	$ 68,716	$ —	$ —
Actual return on plan assets	7,852	14,727	—	—
Employer contributions	10,909	13,143	944	1,068
Participant contributions	—	—	407	327
Benefits paid	(5,976)	(5,023)	(1,351)	(1,395)
Fair value of plan assets at end of year	$104,348	$ 91,563	$ —	$ —
Reconciliation of funded status:				
Funded status	$ (43,007)	$ (36,808)	$ (3,253)	$(10,852)
Unrecognized actuarial loss	50,661	35,105	6,563	5,822
Unrecognized prior service cost	1	—	(18,019)	(10,197)
Net amount at year-end	$ 7,655	$ (1,703)	$(14,709)	$(15,227)
Amounts recognized in the consolidated balance sheet:				
Accrued benefit liability	$ (42,912)	$ (36,829)	$(14,709)	$(15,227)
Accumulated other comprehensive loss	50,567	35,126	—	—
Net amount at year-end	$ 7,655	$ (1,703)	$(14,709)	$(15,227)

At January 31, 2005 and 2004, the Company recorded a non-cash charge to accumulated other comprehensive loss to recognize the change in its additional minimum pension liability in accordance with SFAS No. 87. SFAS No. 87 requires that this liability be recognized at fiscal year end in the amount by which the accumulated benefit obligation exceeds the fair value of defined benefit pension plan assets. The additional minimum pension liability adjustments, totaling $15.4 million, $6.1 million and $17.1 million for Fiscal 2004, 2003 and 2002, respectively, are reflected in accumulated other comprehensive loss, net of related tax benefit, in the consolidated balance sheets.

Additional information about the Company's pension plans with accumulated benefit obligations in excess of plan assets, measured as of January 31, 2005 and 2004, follows (in thousands):

	Fiscal 2004	Fiscal 2003
Projected benefit obligation	$147,355	$128,371
Accumulated benefit obligation	147,260	128,341
Fair value of plan assets	104,348	91,563

Changes in Fair Value of Derivatives

4.27

CROWN HOLDINGS, INC. (DEC)

Consolidated Statements of Shareholders' Equity/(Deficit)

(In millions, except share data)	Comprehensive Income/(Loss)	Common Stock	Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance January 1, 2002		$780	$1,600	$ 22	($1,447)	($151)	$ 804
Net loss	($1,205)			(1,205)			(1,205)
Derivatives qualifying as hedges	6				6		6
Translation adjustments	211				211		211
Translation adjustments—disposition of foreign investments	(8)				(8)		(8)
Minimum pension liability adjustments, net of tax	(148)				(148)		(148)
Comprehensive loss	($1,144)						
Stock issued in debt-for-equity exchanges: 33,386,880 common shares		122	83			45	250
Stock issued—benefit plans: 347,221 common shares			1			2	3
Stock repurchased: 6,082 common shares							
Balance December 31, 2002		902	1,684	(1,183)	(1,386)	(104)	(87)
Net loss	($ 32)			(32)			(32)
Derivatives qualifying as hedges	1				1		1
Translation adjustments	203				203		203
Minimum pension liability adjustments, net of tax	10				10		10
Available for sale securities	2				2		2
Comprehensive income	$ 184						
Stock issued in debt-for-equity exchanges: 5,386,809 common shares		27	14				41
Stock issued—benefit plans: 223,680 common shares			1			1	2
Stock repurchased: 16,411 common shares							
Balance December 31, 2003		929	1,699	(1,215)	(1,170)	(103)	140
Net income	$ 51			51			51
Derivatives qualifying as hedges	7				7		7
Translation adjustments	107				107		107
Translation adjustments—disposition of foreign investments	29				29		29
Minimum pension liability adjustments, net of tax	(63)				(63)		(63)
Available for sale securities	3				3		3
Comprehensive income	$ 134						
Stock issued—benefit plans: 546,626 common shares						3	3
Stock repurchased: 11,221 common shares							
Balance December 31, 2004		$929	$1,699	($1,164)	($1,087)	($100)	$ 277

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Derivatives and Hedging

The Company recognizes all outstanding derivative financial instruments in the balance sheet at their fair values. The impact on earnings from recognizing the fair values of these instruments depends on their intended use, their hedge designation and their effectiveness in offsetting changes in the fair values of the exposures they are hedging. Changes in the fair values of instruments designated to reduce or eliminate adverse fluctuations in the fair values of recognized assets and liabilities and unrecognized firm commitments are reported currently in earnings along with changes in the fair values of the hedged items. Changes in the effective portions of the fair values of instruments used to reduce or eliminate adverse fluctuations in cash flows of anticipated or forecasted transactions are reported in shareholders' equity as a component of accumulated other comprehensive income. Amounts in accumulated other comprehensive income are reclassified to earnings when the related hedged items impact earnings or the anticipated transactions are no longer probable. Changes in the fair values of derivative instruments that are not designated as hedges or do not qualify for hedge accounting treatment are reported currently in earnings.

The effectiveness of derivative instruments in reducing risks associated with the hedged exposures is assessed at inception and on an ongoing basis. Any amounts excluded from the assessment of hedge effectiveness, and any ineffective portion of designated hedges, are reported currently in earnings. Time value, a component of an instrument's fair value, is excluded in assessing effectiveness for fair value hedges, except hedges of firm commitments, and included for cash flow hedges.

The Company discontinues hedge accounting prospectively when (i) it determines that the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item, (ii) the derivative instrument expires, is sold, terminated, exercised, or (iii) the Company determines that designating the derivative instrument as a hedge is no longer appropriate.

The Company formally documents all relationships between its hedging instruments and hedged items, as well as its risk management objective and strategy for establishing various hedge relationships. Cash flows from hedging instruments are classified in the Consolidated Statements of Cash Flows consistent with the items being hedged.

C. Accumulated Other Comprehensive Loss

As of December 31, accumulated other comprehensive loss consisted of the following:

	2004	2003
Minimum pension liability adjustments	($ 728)	($ 665)
Cumulative translation adjustments	(374)	(510)
Derivatives qualifying as hedges	10	3
Available for sale securities	5	2
	($1,087)	($1,170)

S (In Part): Derivative Financial Instruments

In the normal course of business the Company is subject to risk from adverse fluctuations in foreign exchange and interest rates and commodity prices. The Company manages these risks through a program that includes the use of derivative financial instruments. These instruments are not used for trading or speculative purposes. The extent to which the Company uses such instruments is dependent upon its access to them in the financial markets and its ability to utilize other methods, such as netting exposures for foreign exchange risk, to effectively achieve its goal of risk reduction. Counterparties to these contracts are major financial institutions.

Cash Flow Hedges

The Company designates certain derivative instruments as cash flow hedges of anticipated purchases or sales, including certain foreign currency denominated intercompany, transactions. The ineffective portion of these hedges was not material and no components of the hedge instruments were excluded from the measurement of hedge effectiveness.

Prior to 2003, the Company had designated two cross-currency swaps as hedges of long-term U.S. dollar debt in the U.K. The swaps effectively converted fixed rate U.S. dollar debt into fixed rate sterling debt. In 2003, the Company terminated one swap with a notional value of $200 and a maturity of December 2003 and received its then fair value of $13. In September 2003, the Company terminated the remaining swap with a notional value of $300 and a maturity of December 2006, received $14 and recognized a loss of $5 as a loss on sale of assets.

The Company has designated foreign exchange swaps and forwards and commodity forwards as cash flow hedges of anticipated foreign exchange and commodity transactions. Contracts outstanding at December 31, 2004 mature between one and twenty-four months. At December 31, 2004 and 2003, the fair values of these contracts were not material and were reported in current assets and current liabilities consistent with the classification of the hedged items.

The changes in accumulated other comprehensive loss associated with cash flow hedging activities during 2004 and 2003 were as follows:

	2004	2003
Balance at January 1	$ 3	$ 2
Current period changes in fair value, net of tax	3	(5)
Reclassifications to earnings, net of tax	4	6
Balance at December 31	$10	$ 3

During the next twelve months ending December 31, 2005, income of approximately $10 is expected to be reclassified to earnings. The actual amount that will be reclassified to earnings over the next twelve months may vary from this amount due to changing market conditions. No amounts were reclassified to earnings during 2004 in connection with forecasted transactions that were no longer considered probable.

4.28

JABIL CIRCUIT, INC. (AUG)

Consolidated Statements of Comprehensive Income

(In thousands)	2004	2003	2002
Net income	$166,900	$43,007	$34,715
Other comprehensive income (loss):			
Foreign currency translation adjustment	25,586	26,861	875
Change in fair market value of derivative instruments, net of tax	1,139	(865)	(177)
Minimum pension liability, net of tax	5,253	(5,294)	—
Comprehensive income	$198,878	$63,709	$35,413

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

n. Comprehensive Income

The Company has adopted Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* ("SFAS130"). SFAS130 establishes standards for reporting comprehensive income. The Statement defines comprehensive income as the changes in equity of an enterprise except those resulting from stockholder transactions.

Accumulated other comprehensive income consists of the following (in thousands):

	2004	2003
Foreign currency translation adjustment	$52,824	$27,238
Accumulated derivative net losses, net of tax	274	(865)
Minimum pension liability, net of tax	(41)	(5,294)
	$53,057	$21,079

The minimum pension liability recorded to accumulated other comprehensive income during the fiscal years ended August 31, 2004 and 2003 is net of a $23 thousand and $2.27 million tax benefit, respectively.

p. Derivative Instruments

On September 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities* ("SFAS133"), as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS133* ("SFAS138") and Statement of Financial Accounting Standards No. 149, *Amendment on Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS149"). In accordance with these standards, all derivative instruments are recorded on the balance sheet at their respective fair values. If a derivative instrument is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the statement of operations when the hedged item affects earnings. If a derivative instrument is designated as a fair value hedge, the change in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the current period.

10. Derivative Instruments and Hedging Activities

The Company has adopted SFAS 133, as amended by SFAS 138 and SFAS 149. There were no transition amounts recorded upon adoption of SFAS 133 and its related amendments. The Company utilizes certain derivative instruments to enhance its ability to manage risk relating to cash flow and interest rate exposure. Derivative instruments are entered into for periods consistent with the related underlying exposures and are not entered into for speculative purposes. The Company documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions.

a. Foreign Currency Risk

The Company enters into forward contracts to hedge against the impact of currency fluctuations on U.S. dollar and foreign currency commitments arising from trade accounts receivable, trade accounts payable and fixed purchase obligations. These forward contracts are designated as cash flow hedges in accordance with SFAS 133. Accordingly, changes in the derivative fair values are deferred and recorded as a component of other comprehensive income until the underlying transaction is recorded in earnings. In the period in which the hedged item affects earnings, gains or losses on the derivative instrument are reclassified from other comprehensive income to the Consolidated Statement of Earnings in the same financial statement category as the underlying transaction. The Company assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

At August 31, 2004, the Company had $131.0 million of forward contracts for various currencies. The maximum term of the forward contracts that hedged forecasted transactions was seven months. The Company recorded the change in fair value related to cash flow hedges in other comprehensive income. These contracts will expire during fiscal year 2005, with the resulting change in value being reflected in the Consolidated Statement of Earnings. At August 31, 2003, the Company had $122.3 million of forward contracts for various currencies. The maximum term of the forward contracts that hedged forecasted transactions was seven months. These contracts expired during fiscal year 2004, with the resulting change in value being reflected in the Consolidated Statement of Earnings. See Note 1(n)—"Description of Business and Summary of Significant Accounting Policies—Comprehensive Income."

b. Interest Rate Risk

The Company uses an interest rate swap as part of its interest rate risk management strategy. During the fourth quarter of fiscal year 2003, Jabil entered into an interest rate swap transaction to effectively convert the fixed interest rate of its 5.875% Senior Notes to a variable rate. The swap, which expires in 2010, is accounted for as a fair value hedge under SFAS 133. The notional amount of the swap is $300.0 million, which is related to the 5.875% fixed rate, $300.0 million of public debt issued by the Company on July 21, 2003. Under the terms of the swap. Jabil will pay an interest rate equal to the six-month LIBOR rate, set in arrears, plus a fixed spread of 1.945%. In exchange, Jabil will receive a fixed rate of 5.875%. The swap transaction qualifies for the shortcut method of recognition under SFAS 133; therefore, no portion of the swap is treated as ineffective. At August 31, 2004, $5.6 million has been recorded in other long-term liabilities to record the fair value of the interest rate swap, with a corresponding decrease to the carrying value of the 5.875% Senior Notes on the Consolidated Balance Sheet.

Unrealized Losses/Gains on Certain Investments

4.29

ADC TELECOMMUNICATIONS, INC. (OCT)

Consolidated Statements of Shareowners' Investment

(In millions)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings (Deficit)	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, October 31, 2001	792.0	$158.4	$1,256.1	$ 471.7	$(16.7)	$ 23.9	$ 1,893.4
Net loss	—	—	—	(1,145.0)	—	—	(1,145.0)
Other comprehensive loss, net of tax:							
Translation gain	—	—	—	—	—	2.3	2.3
Unrealized loss on securities, net of taxes of $(1.4)	—	—	—	—	—	(2.3)	(2.3)
Adjustment for write-down of securities, net of taxes of $1.9	—	—	—	—	—	3.2	3.2
Adjustment for sale of securities, net of taxes of $(24.5)	—	—	—	—	—	(41.8)	(41.8)
Total comprehensive loss							(1,183.6)
Exercise of common stock options, net of forfeitures	1.2	0.2	3.2	—	—	—	3.4
Stock issued for employee benefit plans	6.4	1.3	13.3	—	(9.9)	—	4.7
Reduction of deferred compensation	—	—	—	—	14.3	—	14.3
Balance, October 31, 2002	799.6	159.9	1,272.6	(673.3)	(12.3)	(14.7)	732.2
Net loss	—	—	—	(76.7)	—	—	(76.7)
Other comprehensive loss, net of tax:							
Translation loss	—	—	—	—	—	(10.7)	(10.7)
Unrealized gain on securities, net of taxes of $0.0	—	—	—	—	—	4.2	4.2
Total comprehensive loss							(83.2)
Exercise of common stock options	2.7	0.5	3.6	—	—	—	4.1
Stock issued for employee benefit plans, net of forfeitures	4.3	0.9	5.2	—	(1.4)	—	4.7
Reduction of deferred compensation	—	—	—	—	4.4	—	4.4
Purchased call option	—	—	(137.3)	—	—	—	(137.3)
Sale of warrants	—	—	102.8	—	—	—	102.8
Balance, October 31, 2003	806.6	161.3	1,246.9	(750.0)	(9.3)	(21.2)	627.7
Net income	—	—	—	16.4	—	—	16.4
Other comprehensive income, net of tax:							
Translation gain	—	—	—	—	—	12.3	12.3
Unrealized loss on securities, net of taxes of $0.0	—	—	—	—	—	(0.4)	(0.4)
Adjustment for sale of securities, net of taxes $0.0	—	—	—	—	—	(4.2)	(4.2)
Total comprehensive income							24.1
Exercise of common stock options	2.0	0.4	2.2	—	—	—	2.6
Reduction of deferred compensation	1.5	0.3	1.7	—	2.9	—	4.9
Balance, October 31, 2004	810.1	$162.0	$1,250.8	$ (733.6)	$ (6.4)	$(13.5)	$ 659.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income (Loss)

Components of comprehensive income (loss) include net income, foreign currency translation adjustments and unrealized gains (losses) on available-for-sale securities, net of tax. Comprehensive income is presented in the consolidated statements of shareowners' investment.

Note 6. Investments

As of October 31, 2004 and 2003, our available-for-sale securities consisted of the following (in millions):

	Cost Basis[1]	Unrealized Gain	Unrealized Loss	Fair Value
2004				
U.S. Treasury and other U.S. government agencies	$25.7	$ —	$0.1	$25.6
Corporate bonds	8.3	—	—	8.3
Equity securities	0.5	—	0.3	0.2
Total available-for-sale securities	$34.5	$ —	$0.4	$34.1
2003				
U.S. Treasury and other U.S. government agencies	$35.5	$ —	$ —	$35.5
Corporate bonds	6.0	—	—	6.0
Equity securities	0.5	4.2	—	4.7
Total available-for-sale securities	$42.0	$4.2	$ —	$46.2

(1) As adjusted for the write-down of certain available-for-sale securities to a lower-of-cost-or-market basis.

The fair value of investments in debt securities at October 31, 2004 by contractual maturities are shown below (in millions). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Fair Value
Due in one year or less	$ 7.1
Due in one year through five years	26.8
Total	$33.9

In accordance with our policy to review our investment portfolio for declines that may be other than temporary, we recorded a non-cash loss of approximately $0.0 million, $0.0 million and $5.7 million on a lower-of-cost-or-market write-down on certain available-for-sale securities during fiscal 2004, 2003 and 2002, respectively. We also recorded a write-down of approximately $0.0 million, $0.0 million and $45.2 million for certain investments in non-publicly traded securities in fiscal 2004, 2003 and 2002, respectively, as a result of the downturn in market conditions in the technology and telecommunication market sectors. The net gains described in the following paragraphs were recorded as an offset to the loss on the write-down of our investment portfolio.

In fiscal 2004 and fiscal 2003, we sold common stock of certain companies in our investment portfolio for gains of $4.8 million and $0.9 million, respectively. During fiscal 2002, we sold holdings of ONI Systems and completely settled a related hedging arrangement for an aggregate gain of $66.6 million. In addition we liquidated our investment in Northstar Photonics, a non-marketable security, for a gain of $1.0 million.

Note 13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive income (loss) has no impact on our net income (loss) but is reflected in our balance sheet through adjustments to shareowners' investment. We specifically identify the amount of unrealized gain (loss) recognized in other comprehensive income for each available-for-sale ("AFS") security. When an AFS security is sold or impaired, we remove the security's cumulative unrealized gain (loss), net of tax, from accumulated other comprehensive loss. The components of accumulated other comprehensive loss are as follows (in millions):

	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on AFS Securities, Net	Total
Balance, October 31, 2001	$(17.0)	$ 40.9	$ 23.9
Translation gain	2.3	—	2.3
Unrealized gain (loss)	—	(40.9)	(40.9)
Balance, October 31, 2002	(14.7)	—	(14.7)
Translation loss	(10.7)	—	(10.7)
Unrealized gain (loss)	—	4.2	4.2
Balance, October 31, 2003	(25.4)	4.2	(21.2)
Translation gain	12.3	—	12.3
Unrealized gain (loss)	—	(0.4)	(0.4)
Adjustment for sale of securities	—	(4.2)	(4.2)
Balance, October 31, 2004	$(13.1)	$ (0.4)	$(13.5)

4.30

ANALOG DEVICES, INC. (OCT)

Consolidated Statements of Comprehensive Income

(Thousands)	2004	2003	2002
Net income	$570,738	$298,281	$105,299
Foreign currency translation adjustment	1,328	3,047	950
Minimum pension liability adjustment (net of taxes of $585 in 2004, $218 in 2003 and $1,140 in 2002)	(1,085)	(404)	(2,117)
Net unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) (net of taxes of $564 in 2004 and $2,105 in 2002) on securities classified as short-term investments	(1,046)	—	(3,908)
Net unrealized holding gains (losses) (net of taxes of $652 in 2004 and $1,477 in 2003) classified as other investments	1,210	2,743	—
Less: reclassification adjustment for losses included in net income	1,090	—	226
Net unrealized gains (losses) on securities	1,254	2,743	(3,682)
Derivative instruments designated as cash flow hedges:			
Changes in fair value of derivatives	5,526	6,608	2,878
Less: reclassification into earnings	(6,240)	(7,120)	267
Net change in derivative instruments designated as cash flow hedges	(714)	(512)	3,145
Other comprehensive income (loss)	783	4,874	(1,704)
Comprehensive income	$571,521	$303,155	$103,595

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All tabular amounts in thousands)

2 (In Part): Summary of Significant Accounting Policies

b. Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition. Cash, cash equivalents and short-term investments consist primarily of corporate obligations such as commercial paper and corporate bonds, and Treasury and government agency notes and bonds. They also include bank time deposits, institutional money market funds and taxable municipal bonds.

The Company classifies its investments in readily marketable debt and equity securities as "held-to-maturity," "available-for-sale" or "trading" at the time of purchase. There were no transfers between investment classifications in any of the periods presented. Held-to-maturity securities, which are carried at amortized cost, include only those securities the Company has the positive intent and ability to hold to maturity. Securities, such as bank time deposits, which by their nature are typically held to maturity, are classified as such. The Company's other readily marketable investments are classified as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported in accumulated other comprehensive income, which is a separate component of stockholders' equity. Realized gains and losses, as well as interest, and dividends on all securities, are included in earnings.

The Company's short-term investments are adjusted to fair value at the end of each quarter. These adjustments to fair value are recorded as an increase or decrease in accumulated other comprehensive income. No realized gains or losses were recorded during any period presented.

The Company periodically evaluates these investments for impairment in accordance with EITF Issue No. 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. When a decline in fair value is deemed to be other-than-temporary, the Company records an impairment adjustment in the statement of income. There were no other-than-temporary impairments of short-term investments in any of the fiscal years presented.

Unrealized gains and losses on available-for-sale marketable securities were as follows:

	2004	2003	2002
Unrealized gains (net of tax of $949 in 2004)	$ 1,763	$—	$ —
Unrealized losses (net of tax of $1,513 in 2004 and $2,105 in 2002)	(2,809)	—	(3,908)
Net unrealized gains (losses)	$(1,046)	$—	$(3,908)

There were no unrealized gains and losses on held-to-maturity investments in any of the fiscal years presented.

There were no cash equivalents or short-term investments classified as trading at October 30, 2004 and November 1, 2003. All of the Company's short-term investments were classified as available-for-sale. The components of the Company's cash, cash equivalents and short-term investments as of October 30, 2004 and November 1, 2003 were as follows:

	2004	2003
Cash and cash equivalents:		
Cash	$ 50,084	$ 54,074
Available-for-sale:		
Institutional money market funds	230,131	11,396
Municipal notes	—	10,000
Corporate obligations	74,815	280,101
Held-to-maturity:		
Euro time deposits	163,910	162,303
Total cash and cash equivalents	$ 518,940	$ 517,874
Short-term investments:		
Securities with one year or less to maturity:		
Corporate obligations	$1,000,305	$1,404,869
U.S. Government Treasury, agency and municipal notes	125,000	70,000
Total maturities less than 1 year	1,125,305	1,474,869
Securities with greater than one year to maturity:		
Corporate obligations	—	99,000
U.S. Government Treasury, agency and municipal bonds	1,040,725	25,000
Total maturities greater than 1 year	1,040,725	124,000
Total short-term investments	$2,166,030	$1,598,869

o. Accumulated Other Comprehensive Income

Other comprehensive income includes certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Accumulated other comprehensive income is comprised of currency translation adjustments, minimum pension liability adjustments, unrealized gains (losses) on available-for-sale securities, and net gain or loss on derivative instruments designated as cash flow hedges.

The components of accumulated other comprehensive income at October 30, 2004 and November 1, 2003 consisted of the following:

	2004	2003
Minimum pension liability adjustments	$(3,606)	$(2,521)
Unrealized gains (losses) on available-for-sale securities	89	(1,165)
Foreign currency translation	5,171	3,843
Unrealized gains on derivative instruments	2,095	2,809
Total accumulated other comprehensive income	$ 3,749	$ 2,966

6. Other Investments

Other investments consist of equity securities and other long-term investments. Investments are stated at fair value, which is based on market quotes, interest rates or management estimates, as appropriate. Adjustments to fair value of investments classified as available-for-sale are recorded as an increase or decrease in accumulated other comprehensive income, unless the adjustment is considered an other-than-temporary impairment, in which case the adjustment is expensed in the statement of income.

Realized losses of $1.7 million were recorded in fiscal 2004. There were no realized gains or losses recorded in fiscal 2003. Realized losses of $6.9 million were recorded in fiscal 2002.

Unrealized gains of $1.8 million ($1.2 million net of tax) were recorded in fiscal 2004, unrealized gains of $4.2 million ($2.7 million net of tax) were recorded in fiscal 2003 and unrealized losses of $1.1 million ($0.7 million net of tax) were recorded in fiscal 2002. The unrealized loss recorded in fiscal 2002 related to an other-than-temporary impairment, therefore, this adjustment was included in other expense in fiscal 2002.

Long-term investments classified as available-for-sale were approximately $3.9 million and $37.6 million at October 30, 2004 and November 1, 2003, respectively.

Reclassification Adjustments

4.31

AUTOZONE, INC. (AUG)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Notes Receivable	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at August 25, 2001	119,518	$1,195	$295,629	$(1,911)	$ 825,196	$ (5,308)	$(248,588)	$ 866,213
Net income					428,148			428,148
Foreign currency translation adjustment						(1,447)		(1,447)
Unrealized losses on derivatives						(4,848)		(4,848)
Comprehensive income								421,853
Repayments of notes receivable from officers				1,911				1,911
Purchase of 12,591 shares of treasury stock			298				(698,983)	(698,685)
Retirement of treasury stock	(12,000)	(120)	(23,280)		(279,203)		302,603	—
Sale of common stock under stock option and stock purchase plans	2,444	25	55,651					55,676
Tax benefit of exercise of stock options			42,159					42,159
Balance at August 31, 2002	109,962	$1,100	$370,457	$ —	$ 974,141	$(11,603)	$(644,968)	$ 689,127

(continued)

(In thousands)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Notes Receivable	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at August 31, 2002	109,962	$1,100	$370,457	$ —	$ 974,141	$(11,603)	$(644,968)	$ 689,127
Net income					517,604			517,604
Minimum pension liability net of taxes of $(18,072)						(29,739)		(29,739)
Foreign currency translation adjustment						(8,276)		(8,276)
Net gains on outstanding derivatives net of taxes of $15,710						25,856		25,856
Net losses on terminated/matured derivatives						(20,014)		(20,014)
Reclassification of net losses on derivatives into earnings						6,479		6,479
Comprehensive income								491,910
Purchase of 12,266 shares of treasury stock			1,111				(891,095)	(889,984)
Retirement of treasury stock	(11,000)	(110)	(43,120)		(622,006)		665,236	—
Sale of common stock under stock option and stock purchase plans	1,708	17	45,112				174	45,303
Tax benefit of exercise of stock options			37,402					37,402
Balance at August 30, 2003	100,670	1,007	410,962		869,739	(37,297)	(870,653)	373,758
Net income					566,202			566,202
Minimum pension liability net of taxes of $10,750						17,537		17,537
Foreign currency translation adjustment						(3,841)		(3,841)
Net gains on outstanding derivatives net of taxes of $1,740						2,900		2,900
Net gains on terminated/matured derivatives net of taxes of ($15,710)						6,226		6,226
Reclassification of derivative ineffectiveness into earnings						(2,701)		(2,701)
Reclassification of net losses on derivatives into earnings						1,523		1,523
Comprehensive income								587,846
Purchase of 10,194 shares of treasury stock							(848,102)	(848,102)
Retirement of treasury stock	(12,400)	(124)	(54,611)		(855,794)		910,529	—
Sale of common stock under stock option and stock purchase plans	1,123	11	33,541					33,552
Tax benefit of exercise of stock options			24,339					24,339
Balance at August 28, 2004	89,393	$ 894	$414,231	$ —	$ 580,147	$(15,653)	$(808,226)	$ 171,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Derivative Instruments and Hedging Activities

AutoZone is exposed to market risk from, among other things, changes in interest rates, foreign exchange rates and fuel prices. From time to time, the Company uses various financial instruments to reduce such risks. To date, based upon the Company's current level of foreign operations, hedging costs and past changes in the associated foreign exchange rates, no instruments have been utilized to reduce this market risk. All of the Company's hedging activities are governed by guidelines that are authorized by AutoZone's Board of Directors. Further, the Company does not buy or sell financial instruments for trading purposes.

AutoZone's financial market risk results primarily from changes in interest rates. At times, AutoZone reduces its exposure to changes in interest rates by entering into various interest rate hedge instruments such as interest rate swap contracts, treasury lock agreements and forward-starting interest rate swaps. The Company complies with Statement of Financial Accounting Standards Nos. 133, 137, 138 and 149 (collectively "SFAS 133") pertaining to the accounting for these derivatives and hedging activities which require all such interest rate hedge instruments to be recognized on the balance sheet at fair value. All of the Company's interest rate hedge instruments are designated as cash flow hedges. Refer to Note B for additional disclosures regarding the Company's derivatives instruments and hedging activities.

Note B (In Part): Derivative Instruments and Hedging Activities

AutoZone has utilized interest rate swaps to convert variable rate debt to fixed rate debt and to lock in fixed rates on future debt issuances. At August 28, 2004, the Company held a five-year forward-starting interest rate swap with a notional amount of $300 million. This swap has an October 2004 effective date to coincide with an anticipated debt transaction. During fiscal 2004, the related gains on this derivative are recorded in accumulated other comprehensive loss, net of income taxes and it is expected that upon settlement of the agreement, the realized gain or loss will be deferred in accumulated other comprehensive loss and reclassified to interest expense over the life of the underlying debt.

At August 30, 2003, the Company held an interest rate swap contract, which was settled in September 2003, to hedge $25 million, of variable rate debt associated with commercial paper borrowings. At August 30, 2003, it also held treasury lock agreements with notional amounts of $300 million and a forward-starting interest rate swap with a notional amount of $200 million. These agreements hedged the exposure to variability in future cash flows resulting from changes in interest rates prior to the November 2003 issuance of $300 million 5.5% Senior Notes due November 2015 and $200 million 4.75% Senior Notes due November 2010. The related gains on these transactions are deferred in stockholders' equity as a component of accumulated other comprehensive loss. These deferred gains are recognized in income as a decrease to interest expense in the period in which the related interest rates being hedged are recognized in expense. However, to the extent that the change in value of an interest rate hedge instrument does not perfectly offset the change in the value of the interest rate being hedged, SFAS 133 requires that the ineffective portion is to be immediately recognized in income. During November 2003, the Company recognized $2.7 million in gains related to the ineffective portion of these agreements. The remaining gains realized upon the November 2003 settlement were deferred in accumulated other comprehensive loss and are being reclassified to interest expense over the life of the underlying Senior Notes, resulting in effective interest rates of 4.86% on the $300 million issuance and 4.17% on the $200 million issuance.

During fiscal 2003, the Company also entered into and settled a forward-starting interest rate swap with a notional amount of $200 million, used to hedge the variability in future cash flows resulting from changes in interest rates prior to the issuance of $200 million 4.375% Senior Notes. The loss realized upon settlement was deferred in accumulated other comprehensive loss and is being reclassified to interest expense over the life of the underlying Senior Notes, resulting in an effective interest rate of 5.65%.

AutoZone reflects the current fair value of all outstanding interest rate hedge instruments in its consolidated balance sheets as a component of other assets. The fair values of the interest rate hedge instruments were $4.6 million at August 28, 2004 and $41.6 million at August 30, 2003. The Company's outstanding hedge instrument was determined to be highly effective at August 28, 2004.

The following table summarizes the fiscal 2004 and 2003 activity in accumulated other comprehensive loss as it relates to interest rate hedge instruments:

(In thousands)	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated net losses as of August 31, 2002	$(10,445)	$ —	$(10,445)
Net gains on outstanding derivatives	41,566	(15,710)	25,856
Net losses on terminated/matured derivatives	(20,014)	—	(20,014)
Reclassification of net losses on derivatives into earnings	6,479	—	6,479
Accumulated net gains as of August 30, 2003	17,586	(15,710)	1,876
Net gains on outstanding derivatives	4,640	(1,740)	2,900
Net gains on terminated/matured derivatives	(9,484)	15,710	6,226
Reclassification of derivative ineffectiveness into earnings	(2,701)	—	(2,701)
Reclassification of net losses on derivatives into earnings	1,523	—	1,523
Accumulated net gains as of August 28, 2004	$ 11,564	$ (1,740)	$ 9,824

4.32

DOLLAR GENERAL CORPORATION (JAN)

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Other Shareholders Equity	Total
Balances, February 1, 2002 (as previously reported)	$166,359	$301,848	$ 579,265	$(3,228)	$(2,526)	$1,041,718
Cumulative effect of restatement on prior years	—	—	(18,028)	—	—	(18,028)
Balances, February 1, 2002 (restated)	$166,359	$301,848	$ 561,237	$(3,228)	$(2,526)	$1,023,690
Comprehensive income:						
Net income	—	—	262,351	—	—	262,351
Net change in fair value of derivatives	—	—	—	277	—	277
Reclassification of net loss on derivatives	—	—	—	1,602	—	1,602
Comprehensive income						264,230
Cash dividends: $0.13 per common share, net of accruals	—	—	(31,991)	—	—	(31,991)
Issuance of common stock under stock incentive plans (710,000 shares)	355	4,666	—	—	—	5,021
Tax benefit from stock option exercises	—	2,372	—	—	—	2,372
Purchase of common stock by employee deferred compensation trust, net (27,000 shares)	—	(98)	—	—	(347)	(445)
Amortization of unearned compensation on restricted stock and restricted stock units	—	—	—	—	131	131
Contribution of capital	—	6,031	—	—	—	6,031
Other equity transactions	(44)	(1,550)	—	—	—	(1,594)
Balances, January 31, 2003 (restated)	$166,670	$313,269	$ 791,597	$(1,349)	$(2,742)	$1,267,445
Comprehensive income:						
Net income	—	—	299,002	—	—	299,002
Reclassification of net loss on derivatives	—	—	—	188	—	188
Comprehensive income						299,190
Cash dividends $0.14 per common share	—	—	(46,883)	—	—	(46,883)
Issuance of common stock under stock incentive plans (4,240,000 shares)	2,120	47,365	—	—	—	49,485
Tax benefit from stock option exercises	—	14,565	—	—	—	14,565
Repurchases of common stock (1,519,000 shares)	(759)	—	(28,928)	—	—	(29,687)
Purchase of common stock by employee deferred compensation trust, net (11,000 shares)	—	(157)	—	—	3	(154)
Issuance of restricted stock (129,000 shares)	64	1,904	—	—	(1,968)	—
Amortization of unearned compensation on restricted stock	—	—	—	—	354	354
Other equity transactions	—	(16)	—	—	—	(16)
Balances, January 30, 2004 (restated)	$168,095	$376,930	$1,014,788	$(1,161)	$(4,353)	$1,554,299

(continued)

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Other Shareholders Equity	Total
Balances, January 30, 2004 (restated)	$168,095	$376,930	$1,014,788	$(1,161)	$(4,353)	$1,554,299
Comprehensive income:						
Net income	—	—	344,190	—	—	344,190
Reclassification of net loss on derivatives	—	—	—	188	—	188
Comprehensive income						344,378
Cash dividends, $0.16 per common share	—	—	(52,682)	—	—	(52,682)
Issuance of common stock under stock incentive plans (2,875,000 shares)	1,437	32,691	—	—	—	34,128
Tax benefit from stock option exercises	—	9,657	—	—	—	9,657
Repurchases of common stock (11,020,000 shares)	(5,510)	—	(203,785)	—	—	(209,295)
Purchase of common stock by employee deferred compensation trust, net (25,000 shares)	—	(92)	—	—	(377)	(469)
Issuance of restricted stock and restricted stock units (128,000 shares)	64	2,398	—	—	(2,462)	—
Amortization of unearned compensation on restricted stock and restricted stock units	—	—	—	—	1,779	1,779
Deferred compensation obligation	—	—	—	—	2,708	2,708
Other equity transactions	—	16	(54)	—	—	(38)
Balances, January 28, 2005	$164,086	$421,600	$1,102,457	$ (973)	$(2,705)	$1,684,465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137, 138 and 149 and interpreted by numerous Financial Accounting Standards Board ("FASB") Issues. These statements require the Company to recognize all derivative instruments on the balance sheet at fair value, and contain accounting rules for hedging instruments, which depend on the nature of the hedge relationship.

The Company has historically used derivative financial instruments primarily to reduce its exposure to adverse fluctuations in interest rates and, to a much lesser extent, other market exposures.

As a matter of policy, the Company does not buy or sell financial instruments, including derivatives, for speculative or trading purposes and all financial instrument transactions must be authorized and executed pursuant to the approval of the Board of Directors. All financial instrument positions taken by the Company are used to reduce risk by hedging an underlying economic exposure and are structured as straightforward instruments with liquid markets. The Company primarily executes derivative transactions with major financial institutions.

For a portion of fiscal year 2002, the Company was party to an interest rate swap agreement with a notional amount of $100 million. The Company designated this agreement as a hedge of the floating rate commitments relating to a portion of certain synthetic lease agreements that existed at that time. Under the terms of the agreement, the Company paid a fixed rate of 5.60% and received a floating rate (LIBOR) on the $100 million notional amount through September 1, 2002. This interest rate swap matured in September 2002, and, as of January 28, 2005, the Company had no outstanding derivative financial instruments. While outstanding, this derivative was 100% effective in hedging the floating rate commitments relating to the underlying exposure being hedged. Accordingly, no hedge ineffectiveness was recognized by the Company relating to this hedging relationship.

The following table summarizes activity in Accumulated other comprehensive loss during 2004 related to derivative transactions used by the Company in prior periods to hedge cash flow exposures relating to certain debt transactions (in thousands):

	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated net losses as of January 30, 2004	$(1,825)	$664	$(1,161)
Net losses reclassified from other comprehensive loss into earnings	286	(98)	188
Accumulated net losses as of January 28, 2005	$(1,539)	$566	$ (973)

The balance remaining in Accumulated other comprehensive loss at January 28, 2005 relates solely to deferred losses realized in June 2000 on the settlement of an interest rate derivative that was designated and effective as a cash flow hedge of the Company's forecasted issuance of its $200 million of fixed rate notes in June 2000. This amount will be reclassified into earnings as an adjustment to the effective interest expense on the fixed rate notes through their maturity date in June 2010. The Company estimates that it will reclassify into earnings during the next twelve months approximately $0.2 million of the net amount recorded in Other comprehensive loss as of January 28, 2005.

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

	2004	2003	2002	2001
Statement of stockholders' equity	584	586	581	578
Separate statement of retained earnings	5	7	9	9
Combined statement of income and retained earnings	3	2	3	6
Schedule in notes	8	5	7	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 56% 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 30% 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			
	2004	2003	2002	2001
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	221	213	219	229
Per share amount not disclosed in retained earnings statements	175	157	135	156
Total	**396**	**370**	**354**	**385**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	15	22	22	17
Per share amount not disclosed in retained earnings statements	35	32	38	48
Total	**50**	**54**	**60**	**65**
Stock Dividends	**3**	**4**	**6**	**4**
Dividends in Kind	**8**	**7**	**10**	**14**
Stock Purchase Rights	**4**	**1**	**4**	**7**

Cash Dividends

5.08

OWENS-ILLINOIS, INC. (DEC)

Consolidated Statements of Share Owners' Equity

(Dollars in millions)	2004	2003	2002
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
Balance at end of year	$ 1.6	$ 1.6	$ 1.6
Capital in excess of par value			
Balance at beginning of year	$ 2,229.3	$ 2,224.9	$2,217.3
Issuance of common stock	31.8	4.4	7.6
Balance at end of year	$ 2,261.1	$ 2,229.3	$2,224.9
Treasury stock			
Balance at beginning of year	$ (247.6)	$ (247.6)	$ (248.0)
Reissuance of common stock	6.3		0.4
Balance at end of year	$ (241.3)	$ (247.6)	$ (247.6)
Retained deficit			
Balance at beginning of year	$(1,189.3)	$ (177.0)	$ 304.7
Cash dividends on convertible preferred stock—$2.375 per share	(21.5)	(21.5)	(21.5)
Net earnings (loss)	235.5	(990.8)	(460.2)
Balance at end of year	$ (975.3)	$(1,189.3)	$ (177.0)
Accumulated other comprehensive income (loss)			
Balance at beginning of year	$ (243.1)	$ (583.6)	$ (576.3)
Foreign currency translation adjustments	317.4	361.0	79.5
Change in minimum pension liability, net of tax	(27.5)	(19.3)	(91.5)
Change in fair value of certain derivative instruments, net of tax	(1.1)	(1.2)	4.7
Balance at end of year	$ 45.7	$ (243.1)	$ (583.6)
Total share owners' equity	$ 1,544.3	$ 1,003.4	$1,670.8
Total comprehensive income (loss)			
Net earnings (loss)	$ 235.5	$ (990.8)	$ (460.2)
Foreign currency translation adjustments	317.4	361.0	79.5
Change in minimum pension liability, net of tax	(27.5)	(19.3)	(91.5)
Change in fair value of certain derivative instruments, net of tax	·(1.1)	(1.2)	4.7
Total comprehensive income (loss)	$ 524.3	$ (650.3)	$ (467.5)

5.09

PACCAR INC (DEC)

Consolidated Statements of Stockholders' Equity

(Millions of dollars except per share data)	2004	2003	2002
Common stock, $1 par value:			
Balance at beginning of year	$ 175.1	$ 115.9	$ 79.2
Treasury stock retirement	(2.0)		(2.4)
50% stock dividend		58.4	38.6
Stock options exercised and other stock compensation	.8	.8	.5
Balance at end of year	$ 173.9	$ 175.1	$ 115.9
Additional paid-in capital			
Balance at beginning of year	$ 524.2	$ 545.8	$ 658.1
Treasury stock retirement	(105.7)		(103.4)
50% stock dividend		(58.4)	(38.6)
Stock options exercised and tax benefit	25.6	32.9	25.3
Other stock compensation	6.4	3.9	4.4
Balance at end of year	$ 450.5	$ 524.2	$ 545.8
Retained earnings:			
Balance at beginning of year	$2,399.2	$2,113.3	$1,916.5
Net income	906.8	526.5	372.0
Cash dividends declared on common stock, per share: 2004–$2.75; 2003–$1.37; 2002–$1.00	(479.1)	(240.6)	(175.2)
Balance at end of year	$2,826.9	$2,399.2	$2,113.3
Treasury stock at cost:			
Balance at beginning of year			$ (105.8)
Purchases	$ (107.7)		
Retirements	107.7		105.8
Balance at end of year	$ —	$ —	$ —
Accumulated other comprehensive income (loss):			
Net unrealized investment gains (losses):			
Balance at beginning of year	$ 9.5	$ 7.4	$ (2.4)
(Decrease) Increase	(9.2)	2.1	9.8
Balance at end of year	.3	9.5	7.4
Minimum pension liability:			
Balance at beginning of year	(3.2)	(20.3)	(8.8)
(Increase) Decrease	(5.3)	17.1	(11.5)
Balance at end of year	(8.5)	(3.2)	(20.3)
Derivative contracts:			
Balance at beginning of year	(15.1)	(39.7)	(37.3)
Increase (Decrease)	11.0	24.6	(2.4)
Balance at end of year	(4.1)	(15.1)	(39.7)
Currency translation:			
Balance at beginning of year	156.7	(121.7)	(246.9)
Translation gains	166.7	278.4	125.2
Balance at end of year	323.4	156.7	(121.7)
Total accumulated other comprehensive income (loss)	$ 311.1	$ 147.9	$ (174.3)
Total stockholders' equity	$3,762.4	$3,246.4	$2,600.7

Dividends-in-Kind

5.10

ABBOTT LABORATORIES (DEC)

Consolidated Statement of Shareholders' Investment

(Dollars in thousands except per share data)	2004	2003	2002
Common shares:			
Beginning of year—shares: 2004: 1,580,247,227; 2003: 1,578,944,551; 2002: 1,571,816,976	$ 3,034,054	$ 2,891,266	$ 2,643,443
Issued under incentive stock programs—shares: 2004: 6,811,550; 2003: 4,186,710; 2002: 7,331,098	208,880	118,119	202,741
Tax benefit from option shares and vesting of restricted stock awards (no share effect)	22,871	29,980	46,755
Retired—shares: 2004: 11,911,359; 2003: 2,884,034; 2002: 203,523	(26,230)	(5,311)	(1,673)
End of year—shares: 2004: 1,575,147,418; 2003: 1,580,247,227; 2002: 1,578,944,551	$ 3,239,575	$ 3,034,054	$ 2,891,266
Common shares held in treasury:			
Beginning of year—shares: 2004: 15,729,296; 2003: 15,876,449; 2002: 17,286,684	$ (229,696)	$ (231,845)	$ (252,438)
Issued under incentive stock programs—shares: 2004: 605,496; 2003: 147,153; 2002: 1,410,235	8,842	2,149	20,593
End of year—shares: 2004: 15,123,800; 2003: 15,729,296; 2002: 15,876,449	$ (220,854)	$ (229,696)	$ (231,845)
Unearned compensation—restricted stock awards:			
Beginning of year	$ (56,336)	$ (76,472)	$ (18,258)
Issued at market value—shares: 2004: 589,000; 2003: 130,000; 2002: 1,396,000	(25,528)	(5,429)	(78,835)
Lapses—shares: 2004: 57,899; 2002: 25,105	3,029	—	1,362
Amortization	28,725	25,565	19,259
End of year	$ (50,110)	$ (56,336)	$ (76,472)
Earnings employed in the business:			
Beginning of year	$ 9,691,484	$ 8,601,386	$ 7,281,395
Net earnings	3,235,851	2,753,233	2,793,703
Cash dividends declared on common shares (per share—2004: $1.04; 2003: $.98; 2002: $.94)	(1,622,148)	(1,531,710)	(1,468,643)
Spin-off of Hospira, Inc.	(761,916)	—	—
Cost of common shares retired in excess of stated capital amount	(527,197)	(135,390)	(64,066)
Cost of treasury shares issued below market value	17,366	3,965	58,997
End of year	$10,033,440	$ 9,691,484	$ 8,601,386
Accumulated other comprehensive income (loss):			
Beginning of year	$ 632,752	$ (519,782)	$ (594,710)
Other comprehensive income and spin-off of Hospira, Inc.	690,980	1,152,534	74,928
End of year	$ 1,323,732	$ 632,752	$ (519,782)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications

The income and cash flows of Hospira and direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off. In addition, Other prepaid expenses and receivables and Trade accounts payable related to TAP's trade accounts receivable as of December 31, 2003 and 2002 have been reclassified to conform to the December 31, 2004 classification.

Note 10: Spin-Off of Hospira

On April 12, 2004, Abbott's Board of Directors declared a special dividend distribution of all of the outstanding shares of common stock of Hospira, Inc. For every 10 Abbott common shares held at the close of business on April 22, 2004, Abbott shareholders received one share of Hospira common stock on April 30, 2004. All of the shares of Hospira's common stock were distributed to Abbott shareholders on a pro-rata basis. Abbott has received a ruling from the Internal Revenue Service that the spin-off qualifies as a tax-free distribution to Abbott and its U.S. shareholders for U.S. federal income tax purposes. Cash, which is generally taxable to the recipient, was paid in lieu of fractional shares. Hospira included the operations relating to the manufacture and sale of hospital products including specialty injectable pharmaceuticals, medication delivery systems and critical care devices and injectable pharmaceutical contract manufacturing. Hospira included Abbott's Hospital Products segment, after that segment's reorganization on January 1, 2004, and portions of Abbott's International segment. The income and cash flows of Hospira and the direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off.

The legal transfer of certain operations and assets (net of liabilities) outside the United States is expected to occur in 2005 and 2006. Approximately half of these operations are expected to be transferred to Hospira in 2005 with the remaining operations transferring in the first half of 2006. These operations and assets are used in the conduct of Hospira's international business and Hospira is subject to the risks and entitled to the benefits generated by these operations and assets. These assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2004. The assets and liabilities held for sale consist primarily of inventories, trade accounts receivable, equipment and trade accounts payable, salaries and other accruals.

In April 2004, Abbott borrowed and Hospira assumed $700 million of debt, the proceeds of which were retained by Abbott to reduce short-term borrowings. Hospira is solely responsible for repayment of the principal and for payment of interest on this debt. Abbott has retained liabilities for taxes on income prior to the spin-off, post-employment medical and dental benefits for most of Hospira's U.S. retired employees and U.S. retirement eligible employees, certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs, and the defined benefit retirement plan liabilities and plan assets for most of Hospira's retired employees. In connection with the spin-off, Abbott's defined benefit, medical and dental and employee stock option programs have been adjusted.

Summarized financial information for discontinued operations is as follows:

(Dollars in thousands)	2004	2003	2002
Net sales	$793,129	$2,400,228	$2,405,126
Earnings before taxes	90,444	347,266	352,426
Taxes on earnings	30,429	98,758	105,728
Net earnings	60,015	248,508	246,698

The financial information above includes the operations of Hospira through April 30, 2004, the date of the spin-off. As a consequence, the results for the full year 2004 include only four months of the operations of Hospira. The results of the discontinued operations also include direct transaction costs of approximately $36 million and $12 million in 2004 and 2003, respectively.

The following is a summary of the assets and liabilities transferred to Hospira on April 30, 2004:

(Dollars in millions)	
Trade receivables, net	$ 235
Inventories	481
Prepaid expenses, deferred income taxes, and other receivables	269
Net property and equipment	841
Goodwill	81
Deferred income taxes and other assets	91
Total assets	$1,998
Short-term borrowings	$ 700
Trade accounts payable, salaries and other accruals	346
Post-employment obligations and other long-term liabilities	185
Total liabilities	$1,231
Net assets transferred to Hospira	$ 767

Stock Purchase Rights

5.11

SERVICE CORPORATION INTERNATIONAL (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Fifteen (In Part): Stockholders' Equity

Share Purchase Rights Plan

The Board of Directors has adopted a preferred share purchase rights plan and has declared a dividend of one preferred share purchase right for each share of common stock outstanding. The rights are exercisable in the event certain investors attempt to acquire 20% or more of the common stock of the Company and entitle the rights holders to purchase certain securities of the Company or the acquiring company. The rights, which are redeemable by the Company for $.01 per right, expire in July 2008 unless extended.

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			
	2004	2003	2002	2001
Prior period adjustments	11	4	6	2
Accounting changes	6	4	5	1
Poolings of interests	—	—	2	8
Other—described	1	—	1	—

Prior Period Adjustment

5.16

DOLLAR GENERAL CORPORATION (JAN)

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Other Shareholders Equity	Total
Balances, February 1, 2002 (as previously reported)	$ 166,359	$301,848	$ 579,265	$(3,228)	$(2,526)	$1,041,718
Cumulative effect of restatement on prior years (See Note 2)	—	—	(18,028)	—	—	(18,028)
Balances, February 1, 2002 (restated)	$ 166,359	$301,848	$ 561,237	$(3,228)	$(2,526)	$1,023,690
Comprehensive income:						
Net income	—	—	262,351	—	—	262,351
Net change in fair value of derivatives	—	—	—	277	—	277
Reclassification of net loss on derivatives	—	—	—	1,602	—	1,602
Comprehensive income						264,230
Cash dividends, $0.13 per common share, net of accruals	—	—	(31,991)	—	—	(31,991)
Issuance of common stock under stock incentive plans (710,000 shares)	355	4,666	—	—	—	5,021
Tax benefit from stock option exercises	—	2,372	—	—	—	2,372
Purchase of common stock by employee deferred compensation trust, net (27,000 shares)	—	(98)	—	—	(347)	(445)
Amortization of unearned compensation on restricted stock and restricted stock units	—	—	—	—	131	131
Contribution of capital	—	6,031	—	—	—	6,031
Other equity transactions	(44)	(1,550)	—	—	—	(1,594)
Balances, January 31, 2003 (restated)	$ 166,670	$313,269	$ 791,597	$(1,349)	$(2,742)	$1,267,445

(continued)

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Other Shareholders Equity	Total
Balances, January 31, 2003 (restated)	$ 166,670	$313,269	$ 791,597	$(1,349)	$(2,742)	$1,267,445
Comprehensive income:						
Net income	—	—	299,002	—	—	299,002
Reclassification of net loss on derivatives	—	—	—	188	—	188
Comprehensive income						299,190
Cash dividends, $0.14 per common share	—	—	(46,883)	—	—	(46,883)
Issuance of common stock under stock incentive plans (4,240,000 shares)	2,120	47,365	—	—	—	49,485
Tax benefit from stock option exercises	—	14,565	—	—	—	14,565
Repurchases of common stock (1,519,000 shares)	(759)	—	(28,928)	—	—	(29,687)
Purchase of common stock by employee deferred compensation trust, net (11,000 shares)	—	(157)	—	—	3	(154)
Issuance of restricted stock (129,000 shares)	64	1,904	—	—	(1,968)	—
Amortization of unearned compensation on restricted stock	—	—	—	—	354	354
Other equity transactions	—	(16)	—	—	—	(16)
Balances, January 30, 2004 (restated)	$ 168,095	$376,930	$1,014,788	$(1,161)	$(4,353)	$1,554,299
Comprehensive income:						
Net income	—	—	344,190	—	—	344,190
Reclassification of net loss on derivatives	—	—	—	188	—	188
Comprehensive income						344,378
Cash dividends, $0.16 per common share	—	—	(52,682)	—	—	(52,682)
Issuance of common stock under stock incentive plans (2,875,000 shares)	1,437	32,691	—	—	—	34,128
Tax benefit from stock option exercises	—	9,657	—	—	—	9,657
Repurchases of common stock (11,020,000 shares)	(5,510)	—	(203,785)	—	—	(209,295)
Purchase of common stock by employee deferred compensation trust, net (25,000 shares)	—	(92)	—	—	(377)	(469)
Issuance of restricted stock and restricted stock units (128,000 shares)	64	2,398	—	—	(2,462)	—
Amortization of unearned compensation on restricted stock and restricted stock units	—	—	—	—	1,779	1,779
Deferred compensation obligation	—	—		—	2,708	2,708
Other equity transactions	—	16	(54)	—	—	(38)
Balances, January 28, 2005	$ 164,086	$421,600	$1,102,457	$ (973)	$(2,705)	$1,684,465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Restatement of Financial Statements

Following a review of the Company's lease accounting and leasehold amortization practices, the Company identified areas where its practices differed from the views expressed by the Securities and Exchange Commission ("SEC") in a letter released on February 7, 2005. The Company determined that it would change its practices, as discussed below, to conform to the SEC's views and GAAP. The Company determined that, becuse the cumulative adjustments resulting from these corrections would have been material to the financial statements for the year ended January 28, 2005, it was required to restate its financial statements for fiscal years 2000 through 2003 (the "Restatment"). The Restatement was technically required even though the adjustments for each individual year are not material to that year's previously reported results (including previously reported 2004 results) and have no impact on the Company's current or future cash flows.

Previously, the Company amortized all leasehold improvements over eight years, which was estimated to be the approximate useful life of the asset to the Company, given the nature of the assets and historical lease renewal practices. Under the corrected method, the Company has changed its practice to amortize leasehold improvements over the shorter of eight years or the applicable non-cancelable lease term. In addition, the Company previously recognized straight-line rent expense for leases beginning on the earlier of the store opening date or the rent payment commencement date, which had the effect of excluding the period used for preparing the store for opening (approximately 30 days) from the calculation of the period over which rent was expensed. Under the corrected method, the Company has changed its practice to include the period of time needed to prepare the store for opening in its calculation of straight-line rent.

The following is a summary of the line items impacted by the Restatement for the 2003 Consolidated Balance Sheet and the 2003 and 2002 Consolidated Statements of Income and Shareholders' Equity (in thousands, except per share data):

	As Previously Reported	Adjustments	Restated
January 30, 2004			
Net property and equipment	$ 989,224	$(31,592)	$ 957,632
Accrued expenses and other	297,616	5,540	303,156
Deferred income tax liability (long-term)	66,650	(14,511)	52,139
Retained earnings	1,037,409	(22,621)	1,014,788
Total shareholders' equity	1,576,920	(22,621)	1,554,299
Total liabilities and shareholders' equity	2,652,709	(31,592)	2,621,117
January 31, 2003			
Total shareholders' equity	$1,288,068	$(20,623)	$1,267,445
February 1, 2002			
Total shareholders' equity	$1,041,718	$(18,028)	$1,023,690
For the year ended January 30, 2004			
Selling, general and administrative	$1,496,866	$ 3,237	$1,500,103
Operating profit	511,263	(3,237)	508,026
Income before income taxes	479,760	(3,237)	476,523
Income taxes	178,760	(1,239)	177,521
Net income	301,000	(1,998)	299.002
Diluted earnings per share	0.89	—	0.89
For the year ended January 31, 2003			
Selling, general and administrative	$1,296,542	$ 4,289	$1,300,831
Operating profit	457,265	(4,289)	452,976
Income before income taxes	414,626	(4,289)	410,337
Income taxes	149,680	(1,694)	147,986
Net income	264,946	(2,595)	262,351
Diluted earnings per share	0.79	—	0.78

Change in Accounting Principle

5.17

CIRCUIT CITY STORES, INC. (FEB)

Consolidated Statements of Stockholders' Equity

	Shares Outstanding		Common Stock				
(Amounts in thousands except per share data)	Circuit City	CarMax Group	Circuit City	CarMax Group	Capital in Excess of Par Value	Retained Earnings	Total
Balance at February 28, 2001 (as previously reported) [Notes 2, 5, and 14]	207,020	25,639	$103,510	$ 12,820	$624,838	$1,597,315	$2,356,483
Adjustment for the cumulative effect on prior years of the adoption of SFAS No. 123	—	—	—	—	55,440	(38,560)	16,880
Net earnings	—	—	—	—	—	199,930	199,930
Sale of CarMax Group common stock	—	9,517	—	4,758	134,788	—	139,546
Compensation for stock options	—	—	—	—	27,417	—	27,417
Exercise of common stock options	541	1,941	270	971	9,669	—	10,910
Shares issued under employee stock purchase plans	867	—	434	—	13,494	—	13,928
Shares issued under stock incentive plans	1,068	2	534	1	13,605	—	14,140
Tax effect from stock issued	—	—	—	—	1,296	—	1,296
Cancellation of restricted stock	(673)	(248)	(337)	(124)	(17,995)	—	(18,456)
Unearned compensation—restricted stock	—	—	—	—	12,985	—	12,985
Cash dividends—common stock ($0.07 per share)	—	—	—	—	—	(14,556)	(14,556)
Balance at February 28, 2002 [Notes 2, 3 and 14]	208,823	36,851	104,411	18,426	893,537	1,744,129	2,760,503
Net earnings	—	—	—	—	—	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 shareholders	—	(37,089)	—	(18,545)	—	(536,765)	(555,310)
Special dividend from CarMax	—	—	—	—	—	28,400	28,400
Balance at February 28, 2003 [Notes 2 and 14]	209,955	—	104,977	—	965,551	1,303,340	2,373,868
Net 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

H) Stock-Based Compensation

Prior to December 1, 2003, the company accounted for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no stock-based compensation cost for stock options was reflected in previously reported results, as all options granted had an exercise price equal to the market value of the underlying common stock on the grant date.

Effective December 1, 2003, the company adopted the fair value based method of accounting for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The adoption of this standard was applied using the retroactive restatement method as defined in SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." All periods have been retroactively restated to reflect the compensation cost that would have been recognized had the recognition provisions of SFAS No. 123 been applied to all awards granted to employees in fiscal years beginning after December 15, 1994. The table below sets forth the effect of retroactive restatement of prior periods.

(Amounts in thousands except per share data)	2003	2002
Net earnings (loss) from continuing operations:		
Previously reported	$41,565	$127,993
Restated for bankcard operation sale	15,892	85,037
Restated for bankcard operation sale and adoption of SFAS No. 123	(5,309)	67,556
Net earnings (loss) per share from continuing operations:		
Basic:		
Previously reported	0.20	0.62
Restated for bankcard operation sale	0.08	0.41
Restated for bankcard operation sale and adoption of SFAS No. 123	(0.03)	0.33
Diluted:		
Previously reported	0.20	0.62
Restated for bankcard operation sale	0.08	0.41
Restated for bankcard operation sale and adoption of SFAS No. 123	(0.03)	0.33

14 (In Part): Stock-Based Incentive Plans

B) Stock Options

Beginning December 1, 2003, the company adopted the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, which requires that the company value stock options issued based upon an option pricing model and recognize this value as an expense over the period in which the options vest. The company has elected to recognize stock-based compensation expense using the retroactive restatement method. Under this change in accounting method, the company has restated its consolidated financial statements to reflect stock-based compensation expense under the fair value based accounting method for all options granted in fiscal years beginning after December 15, 1994.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that do not have vesting restrictions and that are fully transferable. Option valuation models require the company to make highly subjective assumptions, including the expected future volatility of the stock price, expected dividend yield, risk-free interest rate and expected life of the option. Because the stock options granted by the company have characteristics that are significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, the existing option valuation models, including the Black-Scholes model, do not necessarily provide a reliable single measure of the fair value of the company's employee stock options.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions.

	2004	2003	2002
Expected dividend yield	1.1%	0.3%	0.6%
Expected stock volatility	76%	70%	62%
Risk-free interest rates	3%	5%	5%
Expected lives (in years)	5	5	5

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted was $4 per share in fiscal 2004, $13 per share in fiscal 2003 and $7 per share in fiscal 2002.

Compensation expense from continuing operations arising from stock option grants as determined using the Black-Scholes fair value option model was $24.2 million in fiscal 2004, $30.8 million in fiscal 2003 and $25.2 million in fiscal 2002 and included in stock-based compensation expense on the consolidated statements of operations. Prior periods have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of SFAS No. 123 been applied to all options. As a result, transition adjustments consisting of a $38.6 million decrease in retained earnings and a $55.4 million increase in capital excess of par value have been reflected in the accompanying consolidated statements of stockholders' equity as of February 28, 2001, to reflect the effect on these accounts for periods from March 1, 1995, through February 28, 2001.

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			
	2004	**2003**	**2002**	**2001**
Charges				
Purchase or retirement of capital stock	67	69	64	87
Treasury stock issued for less than cost	39	38	32	44
Preferred stock accretion	2	4	4	5
Other—described	22	10	13	22
Credits				
Tax benefit on dividends paid to ESOP	5	9	10	9
Tax benefit on stock option exercise	3	4	3	2
Other—described	19	29	28	34

Treasury Stock Transactions

5.20

THE NEW YORK TIMES COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)	Capital Stock Class A and Class B Common	Additional Paid-In Capital	Retained Earnings	Common Stock Held in Treasury, at Cost	Deferred Compensation	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Total
Balance, December 31, 2001	$15,646	$ —	$1,354,173	$(208,392)	$(2,951)	$ (8,823)	$1,149,653
Comprehensive income:							
Net income			299,747				299,747
Foreign currency translation adjustments (net of tax expense of $67)						121	121
Change in unrealized loss on marketable securities (net of tax expense of $63)						83	83
Reclassification adjustment for loss included in net income (net of tax benefit of $25)						22	22
Change in unrealized derivative losses on cash-flow hedges (net of tax benefit of $983)						1,450	1,450
Minimum pension liability (net of tax benefit of $73,994)						(99,384)	(99,384)
Comprehensive income							202,039
Dividends, common—$.53 per share			(80,259)				(80,259)
Issuance of shares:							
Retirement units—14,050 Class A shares		(453)		586			133
Employee stock purchase plan—973,301 Class A shares	1	(8,325)		40,168			31,844
Restricted shares—140,000 Class A shares		454		5,835	(6,289)		—
Stock options—2,633,935 Class A shares	263	95,900					96,163
Stock conversions—3,214 Class B shares to A shares							—
Compensation expense—Restricted Class A shares					808		808
Repurchase of stock—3,001,171 Class A shares				(131,074)			(131,074)
Treasury stock retirement—1,883,350 shares	(189)	(78,307)		78,496			—
Balance, December 29, 2002	$15,721	$ 9,269	$1,573,661	$(214,381)	$(8,432)	$(106,531)	$1,269,307

(continued)

(In thousands, except share and per share data)	Capital Stock Class A and Class B Common	Additional Paid-In Capital	Retained Earnings	Common Stock Held in Treasury, at Cost	Deferred Compensation	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Total
Balance, December 29, 2002	$15,721	$ 9,269	$1,573,661	$(214,381)	$(8,432)	$(106,531)	$1,269,307
Comprehensive income:							
Net income			302,655				302,655
Foreign currency translation adjustments (net of tax expense of $1,174)						14,192	14,192
Change in unrealized derivative losses on cash-flow hedges (net of tax benefit of $749)						1,130	1,130
Minimum pension liability (net of tax expense of $8,879)						12,190	12,190
Comprehensive income							330,167
Dividends, common—$.57 per share			(85,515)				(85,515)
Issuance of shares:							
Retirement units—15,662 Class A shares		(531)		653			122
Employee stock purchase plan—865,708 Class A shares	1	(3,312)		37,076			33,765
Restricted shares—35,000 Class A shares		162		1,458	(1,620)		—
Stock options—1,337,425 Class A shares	134	48,057					48,191
Stock conversions—3,490 Class B shares to A shares							—
Compensation expense—Restricted Class A shares					2,015		2,015
Repurchase of stock—4,590,994 Class A shares				(205,810)			(205,810)
Balance, December 28, 2003	15,856	53,645	1,790,801	(381,004)	(8,037)	(79,019)	1,392,242
Comprehensive income:							
Net income			292,557				292,557
Foreign currency translation adjustments (net of tax expense of $1,532)						8,384	8,384
Change in unrealized derivative losses on cash-flow hedges (net of tax expense of $340)						485	485
Minimum pension liability (net of tax benefit of $207)						(340)	(340)
Unrealized loss on marketable securities (net of tax benefit of $164)						(199)	(199)
Comprehensive income							300,887
Dividends, common—$.61 per share			(90,127)				(90,127)
Issuance of shares:							
Retirement units—9,810 Class A shares		(334)		429			95
Employee stock purchase plan—953,679 Class A shares		(8,295)		41,585			33,290
Restricted shares—515,866 Class A shares		(1,997)		22,530	(20,533)		—
Stock options—1,599,621 Class A shares	160	52,956					53,116
Compensation expense—Restricted Class A shares					4,261		4,261
Repurchase of stock—6,852,643 Class A shares				(293,222)			(293,222)
Treasury stock retirement—9,232,565 Class A shares	(923)	(95,975)	(308,377)	405,275			—
Balance, December 26, 2004	$15,093	$ —	$1,684,854	$(204,407)	$(24,309)	$(70,689)	$1,400,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Capital Stock

The Company's Class A and Class B Common Stock are entitled to equal participation in the event of liquidation and in dividend declarations. The Class B Common Stock is convertible at the holders' option on a share-for-share basis into Class A Common Stock. Upon conversion, the previously outstanding shares of Class B Common Stock are automatically and immediately retired resulting in a reduction of authorized Class B Common Stock. As provided for in the Company's Certificate of Incorporation, the Class A Common Stock has limited voting rights, including the right to elect 30% of the Board of Directors, and the Class A and Class B Common Stock have the right to vote together on the reservation of Company shares for stock options and other stock-based plans, on the ratification of the selection of a registered public accounting firm and, in certain circumstances, on acquisitions of the stock or assets of other companies. Otherwise, except as provided by the laws of the State of New York, all voting power is vested solely and exclusively in the holders of the Class B Common Stock.

The Company repurchases Class A Common Stock under its stock repurchase program from time to time either in an open market or through private transactions, and these repurchases may be suspended from time to time or discontinued. The Company repurchased 6.8 million shares in 2004 at an average cost of $42.79 per share, 4.6 million shares in 2003 at an average cost of $44.83 per share, and 3.0 million shares in 2002 at an average cost of $43.67 per share. The cost associated with these repurchases were $293.0 million in 2004, $205.8 million in 2003 and $131.1 million in 2002.

The Company repurchased 0.2 million shares during the period from December 27, 2004, through January 28, 2005. As of January 28, 2005, the remaining amount of the repurchase authorization from the Company's Board of Directors is $195.4 million. The effect of repurchases on diluted earnings per share was an increase in earnings per share of $.04 in 2004, $.03 in 2003 and $.02 in 2002.

The Company retired 9.2 million shares from treasury stock in 2004. The 2004 retirement resulted in a reduction of $405.3 million in treasury stock, $0.9 million in Class A Common Stock, $96.0 million in additional paid-in capital and $308.4 million in retained earnings. The Company did not retire any shares from treasury stock in 2003 and retired 1.9 million shares from treasury stock in 2002. The 2002 retirement resulted in a reduction of $78.5 million in treasury stock, $0.2 million in Class A Common Stock and $78.3 million in additional paid-in capital.

5.21

SCIENTIFIC-ATLANTA, INC. (JUN)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In thousands, except per share data)	2004	2003	2002
Preferred stock			
Shares authorized	50,000	50,000	50,000
Shares issued	—	—	—
Common stock ($0.50 par value)			
Shares authorized	350,000	350,000	350,000
Shares issued, beginning of year	164,992	164,992	164,899
Issuance of shares under employee benefit plans	—	—	93
Shares issued, end of year	164,992	164,992	164,992
Common stock	$ 82,496	$ 82,496	$ 82,496
Additional paid-in capital			
Balance, beginning of year	$ 520,503	$ 530,712	$ 545,602
Issuance of shares under employee benefit plans	(88)	(26,440)	(17,628)
Tax benefit related to the exercise of stock options	20,410	1,811	1,958
Reclassification of charges for treasury stock issued for less than cost	20,624	—	—
Restricted shares forfeited/canceled	114	11	218
Gains from issuance of equity of subsidiary	—	14,007	—
Unearned compensation—restricted shares	73	402	562
Balance, end of year	$ 561,636	$ 520,503	$ 530,712

(continued)

(In thousands, except per share data)	2004	2003	2002
Retained earnings			
Balance, beginning of year	$1,127,441	$1,033,168	$ 935,038
Net income(a)	218,001	100,345	104,384
Treasury stock issued for less than cost	(38,658)	—	—
Cash dividends ($0.04 per share in fiscal years 2004, 2003 and 2002, respectively)	(6,093)	(6,072)	(6,254)
Balance, end of year	$1,300,691	$1,127,441	$1,033,168
Accumulated other comprehensive income (loss) (net of tax)			
Balance, beginning of year	$ 21,486	$ (197)	$ (6,075)
Foreign currency translation adjustments(b)	17,210	21,469	11,998
Changes in fair value of derivatives(c)	(403)	1,091	(1,400)
Unrealized holding gains (losses) on available-for-sale non-current marketable securities, net of reclassification adjustments ($2,140, $3,787 and $4,236 in fiscal years 2004, 2003 and 2002, respectively)(d)	(1,522)	5,495	(4,430)
Unrealized holding losses on short-term investments(e)	(1,397)	—	—
Minimum retirement liability adjustments(f)	4,142	(6,372)	(290)
Balance, end of year	$ 39,516	$ 21,486	$ (197)
Treasury shares			
Balance, beginning of year	$ 270,685	$ 209,388	$ 48,076
Treasury shares acquired	—	104,472	183,993
Restricted shares forfeited/canceled	664	369	8,548
Issuance of shares under employee benefit plans	(90,367)	(43,544)	(31,229)
Balance, end of year	$ 180,982	$ 270,685	$ 209,388
Total stockholders' equity	$1,803,357	$1,481,241	$1,436,791
Total comprehensive income (a+b+c+d+e+f)	$ 236,031	$ 122,028	$ 110,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Treasury Stock Transactions

APB No. Opinion 6, "Status of Accounting Research Bulletins," includes provisions related to certain treasury stock transactions that require that the excess of the issuance price over the acquisition cost of treasury stock be credited to paid in capital. The excess of the acquisition cost over the reissuance price of treasury stock is charged to paid in capital but is limited to the amount previously credited to paid in capital. Any excess is charged to retained earnings.

During fiscal year 2004, we identified transactions which had resulted in charges to paid in capital in excess of credits from treasury stock transactions and reclassified $20,624 from paid in capital to retained earnings related to treasury stock transactions in fiscal year 2003. We charged an additional $18,034 to retained earnings related to treasury stock transactions in fiscal year 2004.

Tax Benefit From ESOP Dividends

5.22

CHEVRONTEXACO CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

	2004		2003		2002	
(Shares in thousands; amounts in millions of dollars)	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock	—	$ —	—	$ —	—	$ —
Common stock*						
Balance at January 1	2,274,042	$ 1,706	2,274,042	$ 1,706	2,274,042	$ 1,706
Conversion of Texaco Inc. shares	(10)	—	—	—	—	—
Balance at December 31	2,274,032	$ 1,706	2,274,042	$ 1,706	2,274,042	$ 1,706
Capital in excess of par*						
Balance at January 1		$ 4,002		$ 3,980		$ 3,958
Treasury stock transactions		158		22		22
Balance at December 31		$ 4,160		$ 4,002		$ 3,980
Retained earnings						
Balance at January 1		$35,315		$30,942		$32,767
Net income		13,328		7,230		1,132
Cash dividends						
Common stock		(3,236)		(3,033)		(2,965)
Tax benefit from dividends paid on unallocated ESOP shares and other		7		6		8
Exchange of Dynegy securities		—		170		—
Balance at December 31		$45,414		$35,315		$30,942
Accumulated other comprehensive loss						
Currency translation adjustment						
Balance at January 1		$ (176)		$ (208)		$ (223)
Change during year		36		32		15
Balance at December 31		$ (140)		$ (176)		$ (208)
Minimum pension liability adjustment						
Balance at January 1		$ (874)		$(876)		$ (91)
Change during year		472		2		(785)
Balance at December 31		$ (402)		$ (874)		$ (876)
Unrealized net holding gain on securities						
Balance at January 1		$ 129		$ 49		$ 5
Change during year		(9)		80		44
Balance at December 31		$ 120		$ 129		$ 49
Net derivatives gain on hedge transactions						
Balance at January 1		$ 112		$ 37		$ 3
Change during year		(9)		75		34
Balance at December 31		$ 103		$ 112		$ 37
Balance at December 31		$ (319)		$ (809)		$ (998)

(continued)

(Shares in thousands; amounts in millions of dollars)	2004 Shares	2004 Amount	2003 Shares	2003 Amount	2002 Shares	2002 Amount
Deferred compensation and benefit plan trust						
Deferred compensation						
Balance at January 1		$ (362)		$ (412)		$ (512)
Net reduction of ESOP debt and other		(5)		50		100
Balance at December 31		(367)		(362)		(412)
Benefit plan trust (common stock)*	14,168	(240)	14,168	(240)	14,168	(240)
Balance at December 31	14,168	$ (607)	14,168	$ (602)	14,168	$ (652)
Treasury stock at cost*						
Balance at January 1	135,747	$ (3,317)	137,769	$ (3,374)	139,601	$ (3,415)
Purchases	42,607	(2,122)	81	(3)	76	(3)
Issuances—mainly employee benefit plans	(11,442)	315	(2,103)	60	(1,908)	44
Balance December 31	166,912	(5,124)	135,747	$ (3,317)	137,769	$ (3,374)
Total stockholders' equity at December 31		$45,230		$36,295		$31,604

* 2003 and 2002 restated to reflect a two-for-one stock split effected as a 100 percent stock dividend in September 2004.

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

Note 22 (In Part): Employee Benefit Plans

Employee Stock Ownership Plan

Within the ChevronTexaco Employee Savings Investment Plan (ESIP) is an employee stock ownership plan (ESOP). In 1989, Chevron established a leveraged employee stock ownership plan (LESOP) as a constituent part of the ESOP. The LESOP provides partial prefunding of the company's future commitments to the ESIP.

As permitted by American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, "*Employers' Accounting for Employee Stock Ownership Plans*," the company has elected to continue its practices, which are based on AICPA 76-3, "*Accounting Practices for Certain Employee Stock Ownership Plans*," and subsequent consensus of the EITF of the FASB. The debt of the LESOP is recorded as debt, and shares pledged as collateral are reported as "Deferred compensation and benefit plan trust" in the Consolidated Balance Sheet and the Consolidated Statement of Stockholders' Equity.

The company reports compensation expense equal to LESOP debt principal repayments less dividends received and used by the LESOP for debt service. Interest accrued on the LESOP debt is recorded as interest expense. Dividends paid on LESOP shares are reflected as a reduction of retained earnings. All LESOP shares are considered outstanding for earnings-per-share computations.

Total (credits) expenses recorded for the LESOP were $(29), $24 and $98 in 2004, 2003 and 2002, respectively, including $23, $28, and $32 of interest expense related to LESOP debt and a (credit) charge to compensation expense of $(52), $(4) and $66.

Of the dividends paid on the LESOP shares, $52, $61 and $49 were used in 2004, 2003 and 2002, respectively, to service LESOP debt. Included in the 2004 amount was a repayment of debt entered into in 1999 to pay interest on the ESOP debt. Interest expense on this debt was recognized and reported as LESOP interest expense in 1999. In addition, the company made no contributions in 2004 and contributions of $26 and $102 in 2003 and 2002, respectively, to satisfy LESOP debt service in excess of dividends received by the LESOP.

In January 2005, the company contributed $98 to permit the LESOP to make a $144 debt service payment, which included a principal payment of $113.

Shares held in the LESOP are released and allocated to the accounts of plan participants based on debt service deemed to be paid in the year in proportion to the total of current-year and remaining debt service. LESOP shares as of December 31, 2004 and 2003, were as follows:

(Thousands)	2004	2003
Allocated shares*	24,832	24,198
Unallocated shares	9,940	13,634
Total LESOP shares	34,772	37,832

* 2003 share amounts restated to reflect a two-for-one stock split effected as a 100 percent stock dividend in 2004.

Change in Fiscal Year of Subsidiary

5.23

INGERSOLL-RAND COMPANY LIMITED (DEC)

Consolidated Statement of Shareholders' Equity

(In millions)	Total Shareholders' Equity	Common Stock Amount	Common Stock Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Comprehensive (Loss) Income
Balance at December 31, 2001	$3,916.6	$168.0	168.0	$ 324.2	$3,745.8	$(321.4)	
Net loss	(173.5)				(173.5)		$ (173.5)
Foreign currency translation	124.3					124.3	124.3
Change in fair value of derivatives qualifying as cash flow hedges, net of tax of $0.2	1.2					1.2	1.2
Minimum pension liability adjustment, net of tax of $175.3	(317.2)					(317.2)	(317.2)
Total comprehensive loss							$ (365.2)
Shares issued under incentive stock plans	41.7	1.2	1.2	40.5			
Cash dividends	(114.9)				(114.9)		
Balance at December 31, 2002	3,478.2	169.2	169.2	364.7	3,457.4	(513.1)	
Net earnings	644.5				644.5		$ 644.5
Foreign currency translation	302.9					302.9	302.9
Change in fair value of derivatives qualifying as cash flow hedges, net of tax of $3.2	(18.1)					(18.1)	(18.1)
Minimum pension liability adjustment, net of tax of $24.4	(42.2)					(42.2)	(42.2)
Total comprehensive income							$ 887.1
Shares issued under incentive stock plans	251.2	5.3	5.3	245.9			
Cash dividends	(123.2)				(123.2)		
Balance at December 31, 2003	4,493.3	174.5	174.5	610.6	3,978.7	(270.5)	
Net earnings	1,218.7				1,218.7		$1,218.7
Foreign currency translation	168.7					168.7	168.7
Change in fair value of derivatives qualifying as cash flow hedges, net of tax of $0.4	3.1					3.1	3.1
Minimum pension liability adjustment, net of tax of $103.7	161.5					161.5	161.5
Total comprehensive income							$1,552.0
Shares issued under incentive stock plans	213.5	3.9	3.9	209.6			
Repurchase of common shares by subsidary	(355.9)	(5.3)	(5.3)	(350.6)			
Change in fiscal year end of subsidiary, net of tax of $7.3	(16.5)				(16.5)		
Cash dividends	(152.6)				(152.6)		
Balance at December 31, 2004	$5,733.8	$173.1	173.1	$ 469.6	$5,028.3	$ 62.8	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation (In Part)

The accompanying condensed consolidated financial statements include the results of Hussmann International, Inc. (Hussmann) and its majority-owned subsidiaries. Since the 2000 acquisition, all Hussmann operations were included in the consolidated financial statements on a 15-day lag basis for U.S. operations and a one-month lag basis for all non-U.S. operations. Due to process improvements, the 15-day and one-month lags were eliminated as of the beginning of fiscal year 2004 for Hussmann and its majority-owned subsidiaries. The resulting net loss of $16.5 million was recorded directly to retained earnings during the first quarter of 2004.

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

	2004	2003	2002	2001
Statement of stockholders' equity	517	515	512	497
Statement of additional paid-in capital	—	—	—	1
Schedule in notes	11	11	11	11
No statement or schedule but changes disclosed	1	1	2	3
Balance unchanged during year	10	11	11	19
	539	**538**	**536**	**531**
Additional paid-in capital account not presented	61	62	64	69
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

	2004	2003	2002	2001
Ratio				
Less than three-for-two	1	3	2	—
Three-for-two (50%) to two-for-one	7	4	3	6
Two-for-one (100%)	38	12	18	21
Greater than two-for-one	1	—	—	—
	47	**19**	**23**	**27**
Reverse Ratio				
One-for-two	—	—	—	—
One-for-three	—	—	1	—
One-for-four	1	—	1	—
Other	1	—	2	4
Total Companies	**49**	**19**	**27**	**31**
Account(s) Charged				
Additional paid-in capital	7	7	7	8
Retained earnings	7	5	1	3
Both additional paid-in capital and retained earnings	—	—	1	1
No charge	35	7	18	19
Total Companies	**49**	**19**	**27**	**31**

5.29

BURLINGTON RESOURCES INC. (DEC)

Consolidated Statement of Stockholders' Equity

(In millions, except share data)	Common Stock	Paid-In Capital	Retained Earnings	Deferred Compensation— Restricted Stock	Accumulated Other Comprehensive Income (Loss)	Cost of Treasury Stock	Stockholders' Equity
December 31, 2001	$5	$3,941	$1,332	$ (9)	$ (106)	$(1,638)	$3,525
Comprehensive income (loss)							
Net income			454				454
Foreign currency translation					34		34
Hedging activities					(86)		(86)
Minimum pension liability					(6)		(6)
Comprehensive income (loss)			454		(58)		396
Cash dividends declared ($0.28 per share)			(111)				(111)
Stock option activity		(3)				16	13
Issuance of restricted stock				(9)		9	—
Amortization of restricted stock				9			9
December 31, 2002	5	3,938	1,675	(9)	(164)	(1,613)	3,832
Comprehensive income							
Net income			1,201				1,201
Foreign currency translation					802		802
Hedging activities					11		11
Minimum pension liability					6		6
Comprehensive income			1,201		819		2,020
Cash dividends declared ($0.29 per share)			(115)				(115)
Common stock purchases (14,829,980 shares)						(361)	(361)
Stock option activity		5				129	134
Issuance of restricted stock				(12)		12	—
Amortization of restricted stock				11			11
December 31, 2003	5	3,943	2,761	(10)	655	(1,833)	5,521
Comprehensive income							
Net income			1,527				1,527
Foreign currency translation					396		396
Hedging activities					41		41
Comprehensive income			1,527		437		1,964
Cash dividends declared ($0.32 per share)			(125)				(125)
Common stock purchases (14,358,000 shares)						(522)	(522)
Stock option activity		30				132	162
Issuance of restricted stock				(15)		15	—
Amortization of restricted stock				11			11
December 31, 2004	$5	$3,973	$4,163	$(14)	$1,092	$(2,208)	$7,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Stock Split ("Split")

All prior period common stock and applicable share and per share amounts have been retroactively adjusted to reflect a 2-for-1 split of the Company's Common Stock effective June 1, 2004.

12 (In Part): Capital Stock

On January 21, 2004, the Company's Board of Directors approved a 2-for-1 split on the Company's Common Stock in the form of a share distribution, subject to shareholder approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock from 325 million to 650 million. On April 21, 2004, the Company's shareholder approved the amendment. As a result, the split was paid in the form of a share distribution on June 1, 2004 to shareholders of record on May 5, 2004. The effect on the December 31, 2003 balance sheet was to reduce Paid-in Capital by $2.4 million and increase Common Stock by $2.4 million. All prior period Common Stock and applicable share and per share amounts have been retroactively adjusted to reflect the split.

The Company's Common Stock activity follows.

	Number of Shares		
	Issued	Treasury	Outstanding
December 31, 2001	482,377,376	(80,791,390)	401,585,986
Shares issued under compensation plans, net of forfeitures		484,432	484,432
Option exercise		808,096	808,096
December 31, 2002	482,377,376	(79,498,862)	402,878,514
Treasury shares purchased		(14,829,980)	(14,829,980)
Shares issued under compensation plans, net of forfeitures		476,168	476,168
Option exercises		6,772,904	6,772,904
December 31, 2003	482,377,376	(87,079,770)	395,297,606
Treasury shares purchased		(14,358,000)	(14,358,000)
Treasury shares cancelled	(506)	506	—
Shares issued under compensation plans, net of forfeitures		418,731	418,731
Option exercises		6,583,132	6,583,132
December 31, 2004	482,376,870	(94,435,401)	387,941,469

5.30

DONALDSON COMPANY, INC. (JUL)

Consolidated Statements of Changes in Shareholders' Equity

(Thousands of dollars, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance July 31, 2001	$248,280	$ —	$195,602	$ 7,897	$(24,235)	$(108,451)	$319,093
Comprehensive income							
Net earnings			86,883				86,883
Foreign currency translation					13,515		13,515
Additional minimum pension liability					(3,256)		(3,256)
Net loss on cash flow hedging derivatives					(320)		(320)
Comprehensive income							96,822
Treasury stock acquired						(21,271)	(21,271)
Stock options exercised		(3,023)	(8,138)	5,481		3,527	(2,153)
Deferred stock and other activity			217	107		232	556
Performance awards			59			205	264
Tax reduction—employee plans		3,023					3,023
Cash dividends ($.155 per share)			(13,713)				(13,713)
Balance July 31, 2002	248,280	—	260,910	13,485	(14,296)	(125,758)	382,621
Comprehensive income							
Net earnings			95,314				95,314
Foreign currency translation					22,660		22,660
Additional minimum pension liability					(14,953)		(14,953)
Net loss on cash flow hedging derivatives					(299)		(299)
Comprehensive income							102,722
Treasury stock acquired						(24,874)	(24,874)
Stock options exercised		(3,760)	(4,281)	883		4,127	(3,031)
Deferred stock and other activity			440	156		523	1,119
Performance awards			125			214	339
Tax reduction—employee plans		3,760					3,760
Cash dividends ($.175 per share)			(15,263)				(15,263)
Balance July 31, 2003	248,280	—	337,245	14,524	(6,888)	(145,768)	447,393
Comprehensive income							
Net earnings			106,317				106,317
Foreign currency translation					23,675		23,675
Additional minimum pension liability, net of tax					14,356		14,356
Net gain on cash flow hedging derivatives					415		415
Comprehensive income							144,763
Treasury stock acquired						(29,765)	(29,765)
Stock options exercised		(2,076)	(6,687)	1,900		5,838	(1,025)
Deferred stock and other activity			(3,449)	5,668		1,202	3,421
Performance awards			117			92	209
Tax reduction—employee plans		2,076					2,076
Two-for-one stock split	194,936		(303,996)			109,060	—
Cash dividends ($.205 per share)			(17,779)				(17,779)
Balance July 31, 2004	$443,216	$ —	$111,768	$22,092	$ 31,558	$ (59,341)	$549,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock Split

On January 16, 2004, the Company's Board of Directors declared a two-for-one stock split effected in the form of a 100 percent dividend. The Company distributed 43.4 million shares of common stock on March 19, 2004, to shareholders of record as of March 5, 2004. All share and per share amounts have been retroactively adjusted to reflect the stock split.

5.31

NUCOR CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock (at Cost) Shares	Treasury Stock (at Cost) Amount	Total Stockholders' Equity
Balances, December 31, 2001	90,327	$36,131	$ 81,190	$2,538,884	$ —	$ —	12,512	$(454,744)	$2,201,461
Comprehensive income:									
Net earnings in 2002				162,080					162,080
Total comprehensive income									162,080
Stock options	352	141	16,088						16,229
Employee stock compensation and service awards			2,118				(13)	485	2,603
Cash dividends ($0.38[1] per share)				(59,383)					(59,383)
Balances, December 31, 2002	90,679	36,272	99,396	2,641,581	—	—	12,499	(454,259)	2,322,990
Comprehensive income:									
Net earnings in 2003				62,781					62,781
Total comprehensive income									62,781
Stock options	388	155	16,273						16,428
Employee stock compensation and service awards			1,730				(22)	802	2,532
Cash dividends ($0.40[1] per share)				(62,654)					(62,654)
Balances, December 31, 2003	91,067	36,427	117,399	2,641,708	—	—	12,477	(453,457)	2,342,077
Comprehensive income:									
Net earnings in 2004				1,121,485					1,121,485
Net unrealized loss on hedging derivatives, net of income taxes						(1,177)			(1,177)
Total comprehensive income									1,120,308
Stock options	1,333	533	54,685						55,218
Employee stock compensation and service awards			11,915		(592)		(43)	1,497	12,820
Amortization of unearned compensation					200				200
2-for-1 stock split (Note 1)	91,983	36,793	(36,793)				12,437		—
Cash dividends ($0.47[1] per share)				(74,638)					(74,638)
Balances, December 31, 2004	184,383	$73,753	$147,206	$3,688,555	$(392)	$(1,177)	24,871	$(451,960)	$3,455,985

[1] Adjusted for stock split. See Note 1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock Split

In September 2004, Nucor's Board of Directors approved a two-for-one stock split of common stock in the form of a stock dividend. As a result, stockholders of record received one additional share on October 15, 2004 for each share held as of the record date of September 30, 2004. The par value of Nucor's common stock remains $0.40 per share. All share and per share amounts have been restated to reflect the two-for-one stock split, except for the statements of stockholders' equity which reflect the stock split by reclassifying from "Additional Paid-in Capital" to "Common Stock" an amount equal to the par value of the additional shares issued to effect the stock split.

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			
	2004	**2003**	**2002**	**2001**
Credits				
Common stock issued				
Employee benefits	438	401	409	384
Business combinations	45	38	58	66
Public offerings	32	33	45	49
Preferred stock conversions	19	10	20	20
Debt conversions/extinguishments	18	12	16	18
Stock compensation tax benefits	199	156	159	151
Compensation recognized	92	51	31	42
Warrants issued or exercised	5	7	10	11
Put options/warrants	—	1	5	3
Other—described	44	36	32	50
Charges				
Purchase or retirement of capital stock	107	99	96	110
Treasury stock issued for less than cost	74	75	77	61
Restricted stock	26	39	22	19
Conversion of preferred stock	5	7	10	6
Other—described	64	65	73	85

Common Stock Issued in Connection With Employee Benefit Plans

5.34

CSP INC. (SEP)

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance September 30, 2001	4,085	$41	$11,235	$15,701	$(2,458)	$(2,861)	$21,658	
Comprehensive income:								
Net loss	—	—	—	(5,663)	—	—	(5,663)	$(5,663)
Other comprehensive income (loss):								
Unrealized loss on available-for-sale securities	—	—	—	—	(22)	—	(22)	(22)
Effect of foreign currency translation	—	—	—	—	129	—	129	129
Additional minimum pension liability	—	—	—	—	(1,838)	—	(1,838)	(1,838)
Total comprehensive loss								$(7,394)
Issuance of shares under employee stock purchase plan	10	—	40	—	—	—	40	
Sale of treasury stock	—	—	—	—	—	4	4	
Balance September 30, 2002	4,095	$41	$11,275	$10,038	$(4,189)	$(2,857)	$14,308	
Comprehensive income:								
Net loss	—	—	—	(1,384)	—	—	(1,384)	$(1,384)
Other comprehensive income (loss):								
Unrealized loss on available-for-sale securities	—	—	—	—	(25)	—	(25)	(25)
Effect of foreign currency translation	—	—	—	—	(725)	—	(725)	(725)
Additional minimum pension liability	—	—	—	—	(268)	—	(268)	(268)
Total comprehensive loss								$(2,402)
Issuance of shares under employee stock purchase plan	14	—	28	—	—	—	28	
Purchase of treasury stock	—	—	—	—	—	(2)	(2)	
Balance September 30, 2003	4,109	$41	$11,303	$ 8,654	$(5,207)	$(2,859)	$11,932	
Comprehensive income:								
Net income	—	—	—	1,211	—	—	1,211	$ 1,211
Other comprehensive income (loss):								
Unrealized gain on available-for-sale securities	—	—	—	—	17	—	17	17
Effect of foreign currency translation	—	—	—	—	53	—	53	53
Additional minimum pension liability	—	—	—	—	709	—	709	709
Total comprehensive income								$ 1,990
Exercise of stock options	6	—	80	—	—	—	80	
Issuance of shares under employee stock purchase plan	25	—	22	—	—	—	22	
Balance September 30, 2004	4,140	$41	$11,405	$ 9,865	$(4,428)	$(2,859)	$14,024	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation (In Part)

The Company accounts for its stock compensation under the provisions of FASB Statement No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS 123"), as amended by SFAS No. 148, "*Accounting for Stock-based Compensation—Transition and Disclosure.*" As permitted by SFAS No. 123, the Company measures compensation cost in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to equity.

10. Stock Options and Awards

In 1997, the Company adopted the 1997 Stock Option Plan covering 199,650 shares, which was ratified by the shareholders in January 1998. In 1991, the Company adopted the 1991 Stock Option Plan covering 332,750 shares of common stock. In 2003, the Company adopted the 2003 Stock Incentive Plan which covers 200,000 shares of common stock. The 2003 Plan also may have awards of restricted and unrestricted stock. Under the Plans, both incentive stock options and non-qualified stock options may be granted to officers, key employees and other persons providing services to the Company. The stock option plans provide for issuance of options at their fair market value on the date of grant. These options vest over a period of five years, do not vest in the first year, and expire ten years from the date of grant. In the 1991 plan, up to 26,624 shares are allocated for annual non-discretionary grants of 1,100 shares each to non-employee directors of the Company who are serving on the last business day of January each year. In 2003, the Company issued non-qualified stock options to non-officer employees hired as part of the Technisource acquisition. These options were granted at their fair market value on the date of the grant. These options vest over a period of five years, do not vest in the first year, and expire ten years from the date of the grant.

The following is a summary of common stock option activity for the three years ended September 30, 2004:

	Weighted Average Exercise Price of Shares Under Plans	Weighted Average Fair Value of Options Granted During the Year	Number of Shares					
			2003 Plan	1997 Plan	1991 Plan	1981 Plan	Non Qualified Stock Options	Total
Outstanding August 31, 2001	$5.26		—	148,500	281,228	6,611	—	436,339
Granted	$3.68	$2.04	—	4,000	6,000	—	—	10,000
Expired and terminated	$5.83		—	(6,000)	(30,273)	(6,611)	—	(42,884)
Outstanding September 30, 2002	$5.53		—	146,500	256,955	—	—	403,455
Granted	$2.98	$2.51	—	55,000	—	—	75,000	130,000
Expired and terminated	$6.58		—	(3,000)	(13,821)	—	—	(16,821)
Outstanding September 30, 2003	$4.86		—	198,500	243,134	—	75,000	516,634
Granted	$5.25	$3.18	4,000	4,000	750	—	—	8,750
Expired and terminated	$4.58		—	(4,000)	(5,162)	—	—	(9,162)
Exercised	$3.81		—	—	(5,766)	—	—	(5,766)
Outstanding September 30, 2004	$4.81		4,000	198,500	232,956	—	75,000	510,456
Available for future grants			196,000	—	—	—	—	196,000
Exercisable			4,000	160,813	231,769	—	18,750	415,332

The following table summarizes information about stock options outstanding at September 30, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.64–$4.64	184,737	7.3	$ 2.76	93,613	$ 3.51
$4.65–$6.65	322,719	3.5	$ 5.70	318,719	$ 5.70
$11.00–$11.25	3,000	5.5	$11.16	3,000	$11.16
	510,456		$ 4.81	415,332	$ 5.25

11. Stock Purchase Plan

In October 1997, the Company adopted an Employee Stock Purchase Plan (the 1997 Purchase Plan), which was ratified by the shareholders. The 1997 Purchase Plan reserved 332,750 shares of Common Stock for issuance thereunder. Under the stock purchase plan, the Company's employees may purchase shares of Common Stock at a price per share that is 85% of the lesser of the fair market value as of the beginning or end of the semi-annual option period. Approximately 99,998 shares have been issued under the plan at September 30, 2004.

5.35

UNISYS CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Millions)	Common Stock Shares	Common Stock Par Value	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Cost	Paid-In Capital	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)
Balance at December 31, 2001	322.5	$3.2	$(896.5)	(1.9)	$(42.3)	$3,755.1	$ (706.8)	
Issuance of stock under stock option and other plans	5.6	.1			(.1)	46.9		
Net income			223.0					$ 223.0
Other comprehensive loss:								
Translation adjustments							(33.8)	
Cash flow hedges							(5.9)	
Minimum pension liability							(1,490.4)	
							(1,530.1)	(1,530.1)
Comprehensive loss								$(1,307.1)
Tax benefit related to stock plans						3.5		
Balance at December 31, 2002	328.1	3.3	(673.5)	(1.9)	(42.4)	3,805.5	(2,236.9)	
Issuance of stock under stock option and other plans	5.7				(.2)	50.8		
Net income			258.7					$ 258.7
Other comprehensive income:								
Translation adjustments							65.3	
Cash flow hedges							(5.1)	
Minimum pension liability							164.8	
							225.0	225.0
Comprehensive income								$ 483.7
Tax benefit related to stock plans						4.9		
Balance at December 31, 2003	333.8	3.3	(414.8)	(1.9)	(42.6)	3,861.2	(2,011.9)	
Issuance of stock under stock option and other plans	5.6	.1		(.1)	(.6)	61.4		
Net income			38.6					$ 38.6
Other comprehensive income:								
Translation adjustments							43.5	
Cash flow hedges							3.1	
Minimum pension liability							(39.2)	
							7.4	7.4
Comprehensive income								$ 46.0
Tax benefit related to stock plans						4.4		
Balance at December 31, 2004	339.4	$3.4	$(376.2)	(2.0)	$(43.2)	$3,927.0	$(2,004.5)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation Plans

The company has stock-based employee compensation plans, which are described more fully in Note 17. The company applies the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for those plans. For stock options, no compensation expense is reflected in net income, as all stock options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. In addition, no compensation expense is recognized for common stock purchases under the Employee Stock Purchase Plan. Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the company had accounted for its stock plans under the fair value method of SFAS No. 123. For purposes of the pro forma disclosures, 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 earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123.

(Millions, except per share data)	2004	2003	2002
Net income as reported	$ 38.6	$258.7	$223.0
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of tax	(32.6)	(47.7)	(49.0)
Pro forma net income	$ 6.0	$211.0	$174.0
Earnings per share			
Basic—as reported	$ .12	$ .79	$ .69
Basic—pro forma	.02	.64	.54
Diluted—as reported	.11	.78	.69
Diluted—pro forma	.02	.63	.54

17 (In Part): Employee Plans

Stock Plans

Under the company's plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees.

Options have been granted to purchase the company's common stock at an exercise price equal to or greater than the fair market value at the date of grant. Options generally have a maximum duration of 10 years and become exercisable in annual installments over a four-year period following date of grant.

Restricted stock units have been granted and are subject to forfeiture until the expiration of a specified period of service commencing on the date of grant. Compensation expense resulting from the awards is charged to income ratably from the date of grant until the date the restrictions lapse and is based on fair market value at the date of grant. During the years ended December 31, 2004, 2003 and 2002, $1.4 million, $.9 million and $.2 million, respectively, was charged to income related to restricted stock units.

The company has a worldwide Employee Stock Purchase Plan (ESPP), which enables substantially all regular employees to purchase shares of the company's common stock through payroll deductions of up to 10% of eligible pay with a limit of $25,000 per employee. The price the employee pays is 85% of the market price at the beginning or end of a calendar quarter, whichever is lower. During the years ended December 31, 2004, 2003 and 2002, employees purchased newly issued shares from the company for $27.4 million, $25.4 million and $24.1 million, respectively.

U.S. employees are eligible to participate in an employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. Company matching contributions of up to 2% of pay are made in the form of newly issued shares of company common stock. The charge to income related to the company match for the years ended December 31, 2004, 2003 and 2002, was $19.7 million, $18.8 million and $17.9 million, respectively.

The company applies APB Opinion 25 for its stock plans and the disclosure-only option under SFAS No. 123. Accordingly, no compensation expense is recognized for stock options granted and for common stock purchases under the ESPP.

The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2004, 2003 and 2002, respectively: risk-free interest rates of 3.13%, 2.89% and 4.44%, volatility factors of the expected market price of the company's common stock of 55%, a weighted average expected life of the options of five years and no dividends.

A summary of the status of stock option activity follows:

	2004		2003		2002	
(Shares in thousands)	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beginning of year	41,498	$18.70	38,890	$19.73	28,653	$22.56
Granted	4,560	13.80	5,327	8.93	13,873	14.39
Exercised	(1,256)	9.09	(736)	8.39	(647)	7.68
Forfeited and expired	(1,616)	16.89	(1,983)	16.84	(2,989)	29.18
Outstanding at end of year	43,186	18.53	41,498	18.70	38,890	19.73
Exercisable at end of year	27,159	21.58	21,704	22.18	15,570	21.94
Shares available for granting options at end of year	15,014		19,560		12,449	
Weighted average fair value of options granted during the year		$ 7.17		$ 4.20		$ 5.95

(Shares in thousands)

	December 31, 2004				
	Outstanding			Exercisable	
Exercise Price Range	Shares	Average Life*	Average Exercise Price	Shares	Average Exercise Price
$6.00–11.79	8,986	6.21	$ 8.76	4,449	$ 8.79
$11.80–12.88	8,659	7.14	12.12	4,194	12.12
$12.89–18.57	10,708	7.29	16.83	4,928	18.40
$18.58–30.19	9,386	4.76	26.64	8,173	26.96
$30.20–51.73	5,447	5.13	34.20	5,415	34.20
Total	43,186	6.21	18.53	27,159	21.58

* Average contractual remaining life in years.

Business Combination

5.36

KERR-MCGEE CORPORATION (DEC)

Consolidated Statement of Comprehensive Income (Loss) and Stockholders' Equity

(Millions of dollars)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Deferred Compensation and Other	Total Stockholders' Equity
Balance at December 31, 2001	$100	$1,676	$1,543	$(64)	$—	$(81)	$3,174
Comprehensive income (loss):							
Net loss	—	—	(485)	—	—	—	(485)
Other comprehensive income	—	—	—	2	—	—	2
Comprehensive loss							(483)
Shares issued	—	5	—	—	—	—	5
Dividends declared ($1.80 per share)	—	—	(181)	—	—	—	(181)
Tax benefit from stock-based awards	—	1	—	—	—	—	1
Other	—	5	9	—	—	6	20
Balance at December 31, 2002	100	1,687	886	(62)	—	(75)	2,536
Comprehensive income (loss):							
Net income	—	—	219	—	—	—	219
Other comprehensive income	—	—	—	17	—	—	17
Comprehensive income							236
Shares issued	—	1	—	—	—	—	1
Restricted stock activity	1	21	—	—	(1)	(10)	11
ESOP deferred compensation	—	—	—	—	—	32	32
Dividends declared ($1.80 per share)	—	—	(182)	—	—	—	(182)
Other	—	(1)	4	—	(1)	—	2
Balance at December 31, 2003	101	1,708	927	(45)	(2)	(53)	2,636
Comprehensive income (loss):							
Net income	—	—	404	—	—	—	404
Other comprehensive loss	—	—	—	(34)	—	—	(34)
Comprehensive income							370
Westport merger	49	2,402	—	—	—	(3)	2,448
Shares issued	2	53	—	—	—	—	55
Restricted stock activity	—	24	—	—	(6)	(5)	13
ESOP deferred compensation	—	—	—	—	—	7	7
Dividends declared ($1.80 per share)	—	—	(228)	—	—	—	(228)
Tax benefit from stock-based awards	—	18	—	—	—	—	18
Other	—	—	(1)	—	—	—	(1)
Balance at December 31, 2004	$152	$4,205	$1,102	$(79)	$(8)	$(54)	$5,318

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Business Combination

On June 25, 2004, Kerr-McGee completed a merger with Westport Resources Corporation (Westport), an independent oil and gas exploration and production company with operations in the Rocky Mountain, Mid-Continent and Gulf Coast areas onshore U.S. and in the Gulf of Mexico. The merger increased Kerr-McGee's proved reserves by approximately 30%, bringing the combined company's total reserves as of December 31, 2003, to approximately 1.3 billion barrels of oil equivalent had the merger occurred at that date (unaudited).

On the effective date of the merger, each issued and outstanding share of Westport common stock was converted into .71 shares of Kerr-McGee common stock. As a result, Kerr-McGee issued 48.9 million shares of common stock to Westport's stockholders valued at $2.4 billion based on Kerr-McGee's weighted average stock price two days before and after the merger was publicly announced. Kerr-McGee also exchanged 1.9 million stock options for options held by Westport employees with a fair value of $34 million, determined using the Black-Scholes option pricing model.

On June 25, 2004, after completion of the merger, Kerr-McGee paid down all outstanding borrowings under the Westport revolving credit facility and the facility was terminated on July 13, 2004.

During June 2004, Kerr-McGee purchased Westport 8.25% Notes with an aggregate principal amount of $14 million ($16 million fair value). On July 1, 2004, Kerr-McGee issued a notice of redemption for the remaining 8.25% Westport notes and the notes were redeemed on July 31, 2004, at an aggregate redemption price of $786 million. The redemption price consisted of the face value of $700 million, less the amount previously purchased by Kerr-McGee of $14 million, plus a make-whole premium of $100 million.

On July 1, 2004, Kerr-McGee issued $650 million of 6.95% notes due July 1, 2024, with interest payable semi-annually. The notes were issued at 99.2%, resulting in a discount of $5 million, which will be recognized as additional interest expense over the term of the notes. The proceeds from this debt issuance, together with proceeds from borrowings under the company's revolving credit facilities, were used to redeem the 8.25% Westport notes discussed above.

In exchange for Westport's common stock and options, Kerr-McGee issued stock valued at $2.4 billion, options valued at $34 million and assumed debt of $1 billion, for a total of $3.5 billion (net of $43 million of cash acquired). The fair value assigned to assets acquired and goodwill totaled $4.7 billion. Westport's assets and liabilities are reflected in the company's balance sheet at December 31, 2004, and Westport's results of operations are included in the company's statement of operations from June 25, 2004. The purchase price was allocated to specific assets and liabilities based on their estimated fair values at the merger date, with $839 million recorded as goodwill and $596 million recorded for net deferred tax liabilities.

Public Offering

5.37

GENCORP INC. (NOV)

Consolidated Statements of Shareholders' Equity

(In millions, except share and per share amounts)	Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Other Capital	Accumulated Deficit/Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
November 30, 2001		42,628,167	$ 4	$ 9	$ 331	$(34)	$ 310
Net income	$ 30	—	—	—	30	—	30
Currency translation adjustments and other, net of taxes	21	—	—	—	—	21	21
Cash dividends of $0.12 per share	—	—	—	—	(5)	—	(5)
Shares issued under stock option and stock incentive plans	—	339,927	—	4	—	—	4
November 30, 2002	$ 51	42,968,094	4	13	356	(13)	360
Net income	$ 22	—	—	—	22	—	22
Currency translation adjustments and other, net of taxes	45	—	—	—	—	45	45
Cash dividends of $0.12 per share	—	—	—	—	(5)	—	(5)
Shares issued under stock option and stock incentive plans	—	812,963	—	6	—	—	6
November 30, 2003	$ 67	43,781,057	4	19	373	32	428
Net loss	$(398)	—	—	—	(398)	—	(398)
Reclassifications and other, net of taxes	(35)	—	—	—	—	(35)	(35)
Cash dividends of $0.06 per share	—	—	—	—	(3)	—	(3)
Proceeds from issuance of common stock (net of offering expenses of $7 million)	—	8,625,000	1	130	—	—	131
Shares issued under stock option and stock incentive plans	—	1,596,110	—	18	—	—	18
November 30, 2004	$(433)	54,002,167	$ 5	$167	$ (28)	$ (3)	$ 141

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Shareholders' Equity

b. Common Stock (In Part)

On November 23, 2004, the Company closed a public offering of 8,625,000 shares of its common stock at $16.00 per share. The Company received net proceeds from the offering of approximately $131 million.

Preferred Stock Conversion

5.38

CORNING INCORPORATED (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Series C Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2001		$512	$ 9,532	$(3,610)	$(827)	$(193)	$ 5,414
Net loss				(1,302)			(1,302)
Foreign currency translation adjustment						208	208
Minimum pension liability adjustment						(173)	(173)
Net unrealized gain on investments						6	6
Other comprehensive loss						(18)	(18)
Total comprehensive loss							(1,279)
Issuance of Series C preferred stock, net	$ 575		(18)				557
Series C preferred stock conversions	(420)	107	313				
Shares issued in acquisitions		15	34				49
Shares issued to benefit plans			(97)		148		51
Purchase of common stock for treasury					(23)		(23)
Dividends on preferred stock			(118)				(118)
Other, net			49	(9)			40
Balance, December 31, 2002	155	634	9,695	(4,921)	(702)	(170)	4,691
Net loss				(223)			(223)
Foreign currency translation adjustment						239	239
Minimum pension liability adjustment						26	26
Net unrealized gain on investments						1	1
Other comprehensive income						2	2
Total comprehensive income							45
Series C preferred stock conversions	(70)	18	52				
Shares issued in equity offerings		47	583				630
Shares issued to benefit plans			(37)		65		28
Shares issued in debt retirements			12		65		77
Other, net		2	(7)		(2)		(7)
Balance, December 31, 2003	85	701	10,298	(5,144)	(574)	98	5,464
Net loss				(2,165)			(2,165)
Foreign currency translation adjustment						174	174
Minimum pension liability adjustment						(126)	(126)
Net unrealized gain on investments						8	8
Other comprehensive loss						(6)	(6)
Total comprehensive loss							(2,115)
Series C preferred stock conversions	(21)	5	16				
Shares issued to benefit plans			5		36		41
Shares issued in debt retirements			(11)		379		368
Other, net		6	55		(3)		58
Balance, December 31, 2004	$ 64	$712	$10,363	$(7,309)	$(162)	$ 148	$ 3,816

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Shareholders' Equity

The following table presents changes in capital stock for the period from January 1, 2002 to December 31, 2004:

	Series C Preferred Stock		Common Stock		Treasury Stock	
(In millions)	Shares	Par Value	Shares	Par Value	Shares	Cost
Balance at January 1, 2002			1,023	$512	(79)	$(827)
Shares issued in acquisitions			31	15		
Issuance of preferred stock	6	$ 575				
Conversion of preferred stock	(4)	(420)	213	107		
Shares issued to benefit plans					14	148
Purchase of common stock for treasury					(5)	(23)
Balance at December 31, 2002	2	$ 155	1,267	$634	(70)	$(702)
Shares issued in equity offerings			95	47		
Conversion of preferred stock	(1)	(70)	35	18		
Shares issued to benefit plans					6	65
Shares issued in debt retirement					6	65
Other			4	2		(2)
Balance at December 31, 2003	1	$ 85	1,401	$701	(58)	$(574)
Conversion of preferred stock		(21)	11	5		
Shares issued to benefit plans					4	36
Shares issued in debt retirement					38	379
Other			12	6		(3)
Balance at December 31, 2004	1	$ 64	1,424	$712	(16)	$(162)

Preferred Stock (In Part)

The Series C mandatory convertible preferred stock has an annual dividend rate of 7%, payable quarterly in cash. The dividends are also payable immediately upon conversion to Corning common stock. At the time we issued the Series C mandatory convertible preferred stock, a one-time dividend was declared for all dividends that will be payable from issuance through the mandatory conversion date. We secured the payment of the dividends through the issuance of a promissory note and used a portion of the proceeds from the sale of the Series C preferred stock to purchase U.S. treasury securities that were pledged as collateral to secure the payments on the promissory note. The Series C mandatory convertible preferred stock will automatically convert on the mandatory conversion date of August 16, 2005, into between 50.813 and 62.5 shares of Corning common stock, depending on the then current market price. At any time prior to the mandatory conversion date, holders may elect to convert in whole or part of their shares of Series C preferred stock into 50.813 shares of common stock plus an amount of cash equal to the market value at that time of the pro rata share of the collateral portfolio that secures the promissory note.

The Series C mandatory convertible preferred stock has a liquidation preference of $100 per share, plus accrued and unpaid dividends.

Debt Conversion

5.39

SERVICE CORPORATION INTERNATIONAL (DEC)

Consolidated Statement of Stockholders' Equity

(In thousands)	Outstanding Shares	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2001	292,154	$294,656	$ (2,502)	$2,246,055	$ —	$ (790,659)	$(291,199)	$1,456,351
Comprehensive loss:								
Net loss						(232,486)		(232,486)
Other comprehensive income:								
Foreign currency translation							43,776	43,776
Minimum pension liability adjustment, net							(7,202)	(7,202)
Reclassification for translation adjustments realized in net loss							47,479	47,479
Total other comprehensive income								84,053
Total comprehensive loss								(148,433)
Common stock issued:								
Stock option exercises and other	173	187	(14)	414				587
Contributions to employee 401 (k)	4,683	4,683		13,467				18,150
Balance at December 31, 2002	297,010	299,526	(2,516)	2,259,936	—	(1,023,145)	(207,146)	1,326,655
Comprehensive income:								
Net income						85,082		85,082
Other comprehensive income:								
Foreign currency translation							92,507	92,507
Minimum pension liability adjustment, net							2,956	2,956
Total other comprehensive income								95,463
Total comprehensive income								180,545
Common stock issued:								
Stock option exercises and other	471	424	47	1,909				2,380
Contributions to employee 401 (k)	4,559	4,559		12,819				17,378
Balance at December 31, 2003	302,040	$304,509	$ (2,469)	$2,274,664	$ —	$ (938,063)	$(111,683)	$1,526,958

(continued)

(In thousands)	Outstanding Shares	Common Stock	Treasury Stock, Par Value	Capital in Excess of Par Value	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2003	302,040	$304,509	$ (2,469)	$2,274,664	$ —	$ (938,063)	$(111,683)	$1,526,958
Comprehensive income:								
Net income						113,699		113,699
Other comprehensive income:							(9,242)	(9,242)
Foreign currency translation							33,599	33,599
Minimum pension liability adjustment, net								
Reclassification for translation adjustments realized in net income, net							49,006	49,006
Total other comprehensive income								73,363
Total comprehensive income								187,062
Common stock issued:								
Stock option exercises and other	2,756	2,756		10,888				13,644
Contributions to employee 401 (k)	2,692	2,000	692	15,435				18,127
Debenture conversions	32,034	32,034		185,120				217,154
Restricted stock award	428	428		2,483	(2,911)			—
Restricted stock amortization					889			889
Purchase of company common stock	(16,725)		(16,725)	(93,533)				(110,258)
Balance at December 31, 2004	323,225	$341,727	$(18,502)	$2,395,057	$(2,022)	$ (824,364)	$ (38,320)	$1,853,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Eleven (In Part): Debt

Debt as of December 31, 2004 and 2003 was as follows:

(Dollars in thousands)	2004	2003
7.375% notes due April 2004	$ —	$ 111,190
8.375% notes due December 2004	—	50,797
6.0% notes due December 2005	63,801	272,451
7.2% notes due June 2006	150,000	150,000
6.875% notes due October 2007	143,475	143,475
6.5% notes due March 2008	195,000	195,000
6.75% convertible subordinated notes due 2008, conversion price of $6.92 per share	—	312,694
7.7% notes due April 2009	358,266	358,266
7.875% debentures due February 2013	55,627	55,627
6.75% notes due April 2016	250,000	—
Convertible debentures, maturities through 2013, fixed interest rates from 4.75% to 5.5%, conversion prices from $13.02 to $50.00 per share	30,853	38,368
Mortgage notes and other debt, maturities through 2050	48,194	63,597
Deferred charges	(41,256)	(49,594)
Total debt	1,253,960	1,701,871
Less current maturities	(75,075)	(182,682)
Total long-term debt	$1,178,885	$1,519,189

Debt Extinguishments and Reductions (In Part)

The holders of $221,633 of the Company's 6.75% convertible subordinated notes due 2008 converted their holdings to equity on June 22, 2004, pursuant to the terms of the notes. The Company paid $7,480 in accrued interest to the holders. Simultaneously, the Company exercised its option by redeeming the remaining outstanding $91,061 of the notes. The Company paid a total of $97,649, including interest and premium, to the holders of the redeemed notes and recognized a $5,606 loss on the early extinguishment of debt, recorded in (Loss) gain on early extinguishment of debt, in the consolidated statement of operations during the quarter ended June 30, 2004.

Stock Option Tax Benefit

5.40

PENTAIR, INC. (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share and per-share data)	Common Shares Number	Common Shares Amount	Additional Paid-In Capital	Retained Earnings	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance—December 31, 2001	98,221,718	$ 8,193	$478,541	$566,626	$(9,440)	$(28,918)	$1,015,002	
Net income				129,902			129,902	$129,902
Change in cumulative translation adjustment						25,659	25,659	25,659
Adjustment in minimum pension liability, net of $18,670 tax benefit						(29,201)	(29,201)	(29,201)
Changes in market value of derivative financial instruments						(7,685)	(7,685)	(7,685)
Comprehensive income								$118,675
Tax benefit of stock options			1,014				1,014	
Cash dividends—$0.37 per common share				(36,420)			(36,420)	
Exercise of stock options, net of 91,094 shares tendered for payment	192,052	9	2,721				2,730	
Issuance of restricted shares, net of cancellations	56,466	4	980		(984)		—	
Amortization of restricted shares					5,286		5,286	
Shares surrendered by employees to pay taxes	(25,336)	(2)	(561)				(563)	
Balance—December 31, 2002	98,444,900	8,204	482,695	660,108	(5,138)	(40,145)	1,105,724	
Net income				141,352			141,352	$141,352
Change in cumulative translation adjustment						27,220	27,220	27,220
Adjustment in minimum pension liability, net of $13,339 tax expense						20,864	20,864	20,864
Changes in market value of derivative financial instruments						(2,107)	(2,107)	(2,107)
Comprehensive income								$187,329
Tax benefit of stock options			1,696				1,696	
Cash dividends—$0.41 per common share				(40,494)			(40,494)	
Share repurchases	(80,000)	(7)	(1,582)				(1,589)	
Exercise of stock options, net of 208,378 shares tendered for payment	448,300	37	5,758				5,795	
Issuance of restricted shares, net of cancellations	254,732	21	4,727		(4,748)		—	
Amortization of restricted shares					3,697		3,697	
Shares surrendered by employees to pay taxes	(62,848)	(5)	(1,094)				(1,099)	
Stock compensation			419				419	
Balance—December 31, 2003	99,005,084	$ 8,250	$492,619	$760,966	$(6,189)	$ 5,832	$1,261,478	

(continued)

(In thousands, except share and per-share data)	Common Shares Number	Common Shares Amount	Additional Paid-In Capital	Retained Earnings	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance—December 31, 2003	99,005,084	$ 8,250	$492,619	$760,966	$(6,189)	$ 5,832	$1,261,478	
Net income				171,225			171,225	$171,225
Change in cumulative translation adjustment						25,359	25,359	25,359
Adjustment in minimum pension liability, net of $279 tax benefit						(437)	(437)	(437)
Changes in market value of derivative financial instruments						1,652	1,652	1,652
Comprehensive income								$197,799
Tax benefit of stock options			17,185				17,185	
Cash dividends—$0.43 per common share				(43,128)			(43,128)	
Stock dividend		8,276	(8,276)				—	
Share repurchases	(105,500)	(17)	(4,183)				(4,200)	
Exercise of stock options, net of 1,150,623 shares tendered for payment	1,832,016	305	10,557				10,862	
Issuance of restricted shares, net of cancellations	341,728	26	8,146		(7,675)		497	
Amortization of restricted shares					5,992		5,992	
Shares surrendered by employees to pay taxes	(105,943)	(12)	(3,085)				(3,097)	
Stock compensation			4,406				4,406	
Balance—December 31, 2004	100,967,385	$16,828	$517,369	$889,063	$(7,872)	$ 32,406	$1,447,794	

Compensation Recognized

5.41

BANTA CORPORATION (DEC)

Consolidated Statements of Shareholders' Investment

(Dollars in thousands)	Common Stock Shares Issued	Common Stock Par Value	Amount in Excess of Par Value of Stock	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 29, 2001	27,874,263	$2,787	$ 3,366	$478,853	$ —	$ (66,814)	$(10,914)	$407,278
Net earnings				43,799				43,799
Cumulative foreign currency translation adjustments							8,788	8,788
Comprehensive income								52,587
Cash dividends declared ($.64 per share)				(20,091)				(20,091)
Stock options exercised, net of shares tendered	628,742	63	16,624					16,687
Treasury stock purchases						(3,361)		(3,361)
Other	441		13					13
Balance, December 28, 2002	28,503,446	$2,850	$20,003	$502,561	$ —	$ (70,175)	$ (2,126)	$453,113

(continued)

(Dollars in thousands)	Common Stock Shares Issued	Common Stock Par Value	Amount in Excess of Par Value of Stock	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 28, 2002	28,503,446	$2,850	$20,003	$502,561	$ —	$ (70,175)	$ (2,126)	$453,113
Net earnings				46,614				46,614
Cumulative foreign currency translation adjustments							16,163	16,163
Comprehensive income								62,777
Cash dividends declared ($.67 per share)				(17,091)				(17,091)
Stock options exercised, net of shares tendered	544,047	54	14,554					14,608
Other	695	1	21					22
Balance, January 3, 2004	29,048,188	2,905	34,578	532,084	—	(70,175)	14,037	513,429
Net earnings				68,005				68,005
Cumulative foreign currency translation adjustments							11,460	11,460
Comprehensive income								79,465
Cash dividends declared ($.68 per share)				(17,116)				(17,116)
Stock options exercised, net of shares tendered	230,696	23	6,281					6,304
Restricted stock issuance			595		(1,077)	482		—
Unearned compensation amortization					237			237
Treasury stock purchases						(44,353)		(44,353)
Balance, January 1, 2005	29,278,884	$2,928	$41,454	$582,973	$ (840)	$(114,046)	$ 25,497	$537,966

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Stock-Based Compensation (In Part)

The Corporation has two stock-based employee compensation plans (see Note 8). The Corporation's stock-based employee compensation plans are accounted for under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Because the number of shares is fixed and the exercise price of the stock options equals the market price of the underlying stock on the date of grant, no cost is reflected in net earnings for stock options granted under these plans. The Corporation amortizes restricted stock awards to net earnings over the vesting period based on the fair value of the stock at the date of grant.

8 (In Part): Stock-Based Compensation Plans

At January 1, 2005, the Corporation had options outstanding or available for grant under two equity incentive plans—the Equity Incentive Plan and the 1991 Stock Option Plan (1991 Plan). The Equity Incentive Plan provides for the issuance of non-qualified and incentive stock options and restricted stock to officers and key employees at prices not less than the fair market value of the common stock on the date of the grant. Options granted under the 1991 Plan may be exercised up to five years after the date of grant. Options granted under the Equity Incentive Plan may be exercised up to 10 years from the date of grant. The Equity Incentive Plan includes automatic grants of stock options to non-employee Directors on an annual basis. At January 1, 2005, 316,221 shares of the Corporation's common stock were reserved for future equity incentive awards.

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During 2004, the Corporation awarded an aggregate of 23,988 shares of restricted stock to certain employees pursuant to the Corporation's Equity Incentive Plan. Restricted stock is granted in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions. The restricted stock vests ratably over three years from the date of grant, subject to acceleration in certain cases. The shares issued were previously acquired treasury shares. Upon issuance of the restricted stock, unearned compensation of $1,077,000 was charged to shareholders' investment for the fair value of the restricted stock and is being recognized as compensation expense ratably over the three-year period. Compensation expense related to restricted stock for the year ended January 1, 2005, was $237,000 ($142,000 net of related taxes).

5.42

THE BOEING COMPANY (DEC)

Consolidated Statements of Shareholders' Equity

(Dollars in millions)	Additional Paid-In Capital	Treasury Stock	ShareValue Trust	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Comprehensive Income/(Loss)
Balance January 1, 2002	$1,975	$(8,509)	$(1,552)	$ (485)	$14,340	$ 2,344
Share-based compensation	447					
Tax benefit related to share-based plans	8					
ShareValue Trust market value adjustment	(228)		228			
Treasury shares issued for share-based plans, net	(61)	112				
Net earnings					492	492
Cash dividends declared ($0.68 per share)					(570)	
Minimum pension liability adjustment, net of tax of $2,084				(3,663)		(3,663)
Reclassification adjustment for losses realized in net earnings, net of tax of $(15)				25		25
Unrealized holding loss, net of tax of $2				(3)		(3)
Gain on derivative instruments, net of tax of $(37)				61		61
Currency translation adjustment				20		20
Balance December 31, 2002	$2,141	$(8,397)	$(1,324)	$(4,045)	$14,262	$(3,068)
Share-based compensation	456					
Tax benefit related to share-based plans	(79)					
ShareValue Trust market value adjustment	416		(416)			
Treasury shares issued for share-based plans, net	(54)	75				
Net earnings					718	718
Cash dividends declared ($0.68 per share)					(573)	
Minimum pension liability adjustment, net of tax of $132				(222)		(222)
Reclassification adjustment of losses realized in net earnings, net of tax of $(11)				20		20
Unrealized holding gain, net of tax of $(1)				3		3
Gain on derivative instruments, net of tax of $(18)				32		32
Currency translation adjustment				67		67
Balance December 31, 2003	$2,880	$(8,322)	$(1,740)	$(4,145)	$14,407	$ 618
Share-based compensation	576					
Tax benefit related to share-based plans	13					
Shares paid out, net of fees			143			
ShareValue Trust market value adjustment	283		(426)			
Treasury shares issued for share-based plans, net	(332)	264				
Treasury shares repurchased		(752)				
Net earnings					1,872	1,872
Cash dividends declared ($0.85 per share)					(714)	
Minimum pension liability adjustment, net of tax of $(1,257)				2,188		2,188
Reclassification adjustment for losses realized in net earnings, net of taxes of $(12)				21		21
Gain on derivative instruments, net of tax of $(8)				14		14
Unrealized loss on certain investments net of tax of $18				(34)		(34)
Currency translation adjustment				31		31
Balance December 31, 2004	$3,420	$(8,810)	$(2,023)	$(1,925)	$15,565	$ 4,092

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Share-Based Compensation

We use a fair value based method of accounting for share-based compensation provided to our employees in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, as described in Note 17. Our primary types of share-based compensation consist of stock options, ShareValue Trust distributions and Performance Shares. We value stock options issued based upon an option-pricing model and recognize this fair value as an expense over the period in which the options service period. Potential distributions from the ShareValue Trust have been valued based upon an option-pricing model, with the related expense recognized over the life of the trust. Share-based expense associated with Performance Shares is determined based on the market value of our stock at the time of the award applied to the maximum number of shares contingently issuable based on stock price, and is amoritzed over a five-year period.

Note 17 (In Part): Share-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS No. 123R), *Shared-Based Payment*. We will early adopt the provisions of SFAS No. 123R as of January 1, 2005 using the modified prospective method. See Note 2 for further discussion.

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

The following summarizes share-based plans expense for the years ended December 31, 2004, 2003 and 2002, respectively:

	2004	2003	2002
Performance Shares	$449	$316	$295
ShareValue Trust	74	71	71
Stock options, other	53	69	81
	$576	$456	$447

Certain deferred stock compensation plans are reflected in general and administrative expense. We had issued 10,343,380 stock units as of December 31, 2004, that are convertible to either stock or a cash equivalent, of which 9,549,837 are vested, and the remainder vest with employee service. These stock units principally represent a method of deferring employee compensation by which a liability is established based upon the current stock price. An expense or reduction in expense is recognized associated with the change in that liability balance. The (increase)/reduction in expense related to deferred stock compensation was $(72), $(68) and $42 in 2004, 2003 and 2002, respectively.

Warrants Issued/Exercised

5.43

UTSTARCOM, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Retained Earnings	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity	Comprehensive Income
Balances, December 31, 2001	109,302,816	$138	$ 638,697	$ (6,045)	$ 49,146	$(381)	$ 332	$ 681,887	
Common stock issued upon exercise of options	1,717,899	3	9,162					9,165	
Common stock issued upon Softbank offering, net of expenses	1,500,000	2	28,933					28,935	
Common stock issued upon ESPP purchases	182,437		2,828					2,828	
ACD acquisition-related stock issuances	84,756							—	
Repurchase of Softbank shares, including fees	(6,000,000)	(8)	(36,433)		(36,488)			(72,929)	
Cancellation of deferred compensation charges due to employee terminations			(1,282)	1,282				—	
Amortization of deferred stock compensation			103	2,997				3,100	
Acquisition-related deferred compensation			10,000	(10,000)				—	
Tax benefits for non-qualified stock option exercises			6,538					6,538	
Collections on notes receivable from stockholders						99		99	
Net income					107,862			107,862	$107,862
Other comprehensive income:									
Unrealized holding loss (net of tax of $298)							(952)	(952)	(952)
Translation adjustment							(138)	(138)	(138)
Total comprehensive income									$106,772
Balances, December 31, 2002	106,787,908	$135	$ 658,546	$(11,766)	$120,520	$(282)	$ (758)	$ 766,395	

(continued)

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Retained Earnings	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity	Comprehensive Income
Balances, December 31, 2002	106,787,908	$135	$ 658,546	$(11,766)	$120,520	$(282)	$ (758)	$ 766,395	
Common stock issued upon exercise of options	4,490,195	6	55,053					55,059	
Common stock issued upon ESPP purchases	261,103		3,839					3,839	
Repurchase of Softbank shares, including fees	(8,000,000)	(10)	(46,605)		(92,994)			(139,609)	
Purchase of convertible bond hedge and call option			(43,792)					(43,792)	
Common stock issued for RollingStreams acquisition	164,115		6,233					6,233	
Shanghai Yi Yun acquisition-related stock issuance	226,302							—	
Deferred compensation related to RollingStreams acquisition				(434)				(434)	
Cancellation of deferred compensation charges due to employee terminations			(156)	156				—	
Amortization of deferred stock compensation				4,283				4,283	
Common stock issued for Shanghai Yi Yun acquisition	342,854		6,001					6,001	
Tax benefits for non-qualified stock option exercises			15,364					15,364	
Collections of notes receivable from stockholders						282		282	
Net income					215,532			215,532	$215,532
Other comprehensive income:									
Unrealized holding gain (net of tax of $506)							2,166	2,166	2,166
Translation adjustment							2,012	2,012	2,012
Total comprehensive income									$219,710
Balances, December 31, 2003	104,272,477	131	654,483	(7,761)	243,058	—	3,420	893,331	
Common stock issued upon exercise of options	1,191,877	2	18,525					18,527	
Common stock issued upon ESPP purchase	445,844		7,130					7,130	
Common stock issued upon secondary offering, net of expenses	12,100,000	15	474,539					474,554	
Common stock issued upon exercise of warrants	32,000		80					80	
Common stock repurchased per Repurchase Plan, including fees	(3,555,566)	(4)	(34,544)		(73,021)			(107,569)	
Amortization of deferred stock compensation				519				519	
Cancellation of deferred compensation charges due to employee terminations			(1,140)	1,140				—	
Tax benefits for non-qualified stock option exercises			3,992					3,992	
Net income					73,415			73,415	$ 73,415
Other comprehensive income:									
Unrealized holding loss (net of tax of $516)							(1,351)	(1,351)	(1,351)
Translation adjustment							2,744	2,744	2,744
Total comprehensive income									$ 74,808
Balances, December 31, 2004	114,486,632	$144	$1,123,065	$ (6,102)	$243,452	$ —	$ 4,813	$1,365,372	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation (In Part)

The fair value of warrants, options or stock exchanged for services from non-employees is expensed over the period benefited. The warrants and options are valued using the Black-Scholes option-pricing model.

Stock Rights Issued

5.44

MICRON TECHNOLOGY, INC. (AUG)

Consolidated Statements of Shareholders' Equity

	Common Stock					
(Amounts in millions)	Number of Shares	Amount	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at August 30, 2001	598.4	$59.8	$4,153.7	$2,924.6	$(3.3)	$ 7,134.8
Comprehensive income (loss):						
Net loss				(907.0)		(907.0)
Other comprehensive income (loss):						
Net change in unrealized gain (loss) on investments, net of tax					4.3	4.3
Total comprehensive income (loss)						(902.7)
Stock issued under stock plans	4.5	0.5	75.9			76.4
Stock issued in connection with purchase of DRAM assets from Toshiba Corporation	1.5					
Redeemable common stock accretion				(2.1)		(2.1)
Balance at August 29, 2002	604.4	$60.3	$4,229.6	$2,015.5	$ 1.0	$ 6,306.4
Comprehensive income (loss):						
Net loss				(1,273.2)		(1,273.2)
Other comprehensive income (loss):						
Net change in unrealized gain (loss) on investments, net of tax					(0.9)	(0.9)
Total comprehensive income (loss)						(1,274.1)
Stock issued under stock plans	5.7	0.5	56.9			57.4
Purchase of call spread options			(109.1)			(109.1)
Repurchase and retirement of common stock	(0.2)		(1.1)	(2.2)		(3.3)
Redeemable common stock accretion				(6.3)		(6.3)
Balance at August 28, 2003	609.9	$60.8	$4,176.3	$ 733.8	$ 0.1	$ 4,971.0
Comprehensive income:						
Net income				157.2		157.2
Other comprehensive income (loss):						
Net change in unrealized gain (loss) on investments, net of tax					(0.5)	(0.5)
Total comprehensive income						156.7
Stock issued under stock plans	3.1	0.4	37.6			38.0
Issuance of stock rights			450.0			450.0
Redemption of common stock	(1.5)					
Redeemable common stock accretion and fair value adjustment				(0.9)		(0.9)
Balance at September 2, 2004	611.5	$61.2	$4,663.9	$ 890.1	$(0.4)	$ 5,614.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

Stock Rights

On September 24, 2003, the Company received $450.0 million, which is included in additional capital in the accompanying consolidated balance sheet, from Intel Corporation ("Intel") in exchange for the issuance of stock rights exchangeable into approximately 33.9 million shares of the Company's common stock. In conjunction with the issuance of the stock rights, the Company agreed to achieve operational objectives through May 2005, including certain levels of DDR2 production and 300mm wafer processing capacity. In the event the Company fails to achieve certain 2005 milestones and the Company's common stock price is then below Intel's purchase price of $13.29, the Company could be obligated to pay Intel amounts not to exceed $135 million, a substantial portion of which is payable, at the Company's election, in the Company's common stock. The shares issuable pursuant to the stock rights are considered outstanding common shares in the computations of basic and diluted earnings per share.

Treasury Stock Purchased

5.45

THE L. S. STARRETT COMPANY (JUN)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Outstanding ($1 Par)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2001	$6,458	$45,112	$156,626	$(23,375)	$184,821
Comprehensive loss:					
Net loss			(380)		(380)
Unrealized net loss on investments				(169)	(169)
Translation loss, net				(546)	(546)
Total comprehensive loss					(1,095)
Dividends ($0.80 per share)			(5,187)		(5,187)
Treasury shares:					
Purchased	(87)	(679)	(1,030)		(1,796)
Issued	153	3,073			3,226
Options exercised	20	352			372
Balance, June 29, 2002	6,544	47,858	150,029	(24,090)	180,341
Comprehensive loss:					
Net loss			(10,575)		(10,575)
Unrealized net gain on investments				152	152
Minimum pension liability				(3,207)	(3,207)
Translation gain, net				1,064	1,064
Total comprehensive loss					(12,566)
Dividends ($0.70 per share)			(4,619)		(4,619)
Treasury shares:					
Purchased	(39)	(331)	(288)		(658)
Issued	142	2,159			2,301
Options exercised	12	140			152
Balance, June 28, 2003	6,659	49,826	134,547	(26,081)	164,951
Comprehensive income:					
Net loss			(2,352)		(2,352)
Unrealized net loss on investments				(56)	(56)
Minimum pension liability, net				765	765
Translation gain, net				1,792	1,792
Total comprehensive income					149
Dividends ($0.40 per share)			(2,658)		(2,658)
Treasury shares:					
Purchased	(40)	(337)	(255)		(632)
Issued	24	357			381
Options exercised	4	88			92
Balance, June 26, 2004	$6,647	$49,934	$129,282	$(23,580)	$162,283

5.46

UNIFI, INC. (JUN)

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)

(Amounts in thousands)	Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation	Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance June 24, 2001	53,825	$5,382	$ —	$589,360	$(1,203)	$(52,996)	$540,543	—
Purchase of stock	(2)	—	(16)	—	—	—	(16)	—
Options exercised	13	1	104	—	—	—	105	—
Issuance of restricted stock	15	2	132	—	(134)	—	—	—
Amortization of restricted stock	—	—	—	—	463	—	463	—
Currency translation adjustments	—	—	—	—	—	870	870	$ 870
Net loss	—	—	—	(43,925)	—	—	(43,925)	(43,925)
Balance June 30, 2002	53,851	5,385	220	545,435	(874)	(52,126)	498,040	$(43,055)
Purchase of stock	(451)	(45)	(208)	(2,686)	—	—	(2,939)	—
Cancellation of unvested restricted stock	(1)	—	(12)	—	12	—	—	—
Amortization of restricted stock	—	—	—	—	560	—	560	—
Currency translation adjustments	—	—	—	—	—	11,264	11,264	$ 11,264
Net loss	—	—	—	(27,177)	—	—	(27,177)	(27,177)
Balance June 29, 2003	53,399	5,340	—	515,572	(302)	(40,862)	479,748	$(15,913)
Purchase of stock	(1,304)	(131)	(7)	(8,242)	—	—	(8,380)	—
Cancellation of unvested restricted stock	(2)	—	—	(18)	18	—	—	—
Issuance of restricted stock	22	2	134	—	(136)	—	—	—
Amortization of restricted stock	—	—	—	—	192	—	192	—
Currency translation adjustments	—	—	—	—	—	134	134	$ 134
Net loss	—	—	—	(69,793)	—	—	(69,793)	(69,793)
Balance June 27, 2004	52,115	$5,211	$ 127	$437,519	$ (228)	$(40,728)	$401,901	$(69,659)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Common Stock, Stock Option Plans and Restricted Stock

Common shares authorized were 500 million in 2004 and 2003. Common shares outstanding at June 27, 2004 and June 29, 2003 were 52,114,804 and 53,399,052, respectively.

At its meeting on April 24, 2003, the Company's Board of Directors reinstituted the Company's previously authorized stock repurchase plan. During fiscal years 2004 and 2003, the Company repurchased approximately 1.3 million and 0.5 million shares, respectively. At June 27, 2004, there was remaining authority for the Company to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program.

Treasury Stock Issued

5.47

LEGGETT & PLATT, INCORPORATED (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in millions, except per share data)	2004	2003	2002
Common stock			
Balance, beginning and end of period	$ 2.0	$ 2.0	$ 2.0
Additional contributed capital			
Balance, beginning of period	$ 433.7	$ 422.9	$ 419.3
Stock options and benefit plans transactions	20.4	14.2	12.6
Treasury stock issued	(10.6)	(4.1)	(12.8)
Tax benefit related to stock options	9.0	.7	3.8
Balance, end of period	$ 452.5	$ 433.7	$ 422.9
Retained earnings			
Balance, beginning of period	$1,788.3	$1,687.3	$1,552.7
Net earnings	285.4	205.9	233.1
Cash dividends declared (per share: 2004–$.58; 2003–$.54; 2002–$.50)	(112.2)	(104.9)	(98.5)
Balance, end of period	$1,961.5	$1,788.3	$1,687.3
Treasury stock			
Balance, beginning of period	$ (144.4)	$ (96.3)	$ (51.6)
Treasury stock purchased	(103.6)	(83.3)	(96.7)
Treasury stock issued	62.8	35.2	52.0
Balance, end of period	$ (185.2)	$ (144.4)	$ (96.3)
Accumulated other comprehensive income (loss)			
Balance, beginning of period	$ 34.4	$ (39.0)	$ (55.8)
Foreign currency translation adjustment	55.2	73.4	16.8
Minimum pension liability adjustment	(7.3)	—	—
Balance, end of period	$ 82.3	$ 34.4	$ (39.0)
Total shareholders' equity	$2,313.1	$2,114.0	$1,976.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Capital Stock

Stock Activity

Activity in the Company's stock accounts for each of the three years ended December 31 is as follows:

	Common Stock	Treasury Stock
Balance, January 1, 2002	198,797,750	(2,499,597)
Shares issued	1,793	2,344,708
Treasury stock purchased	—	(4,146,034)
Balance, December 31, 2002	198,799,543	(4,300,923)
Shares issued	—	1,614,003
Treasury stock purchased	—	(4,009,929)
Balance, December 31, 2003	198,799,543	(6,696,849)
Shares issued	—	2,813,791
Treasury stock purchased	—	(4,030,467)
Balance, December 31, 2004	198,799,543	(7,913,525)

The Company issues shares for employee and director stock plans and acquisitions. The Company purchases its common stock to meet the requirements of the employee stock plans, to replace shares issued in acquisitions and to satisfy contractual obligations. The Company will also receive shares in stock option exercises. The Company's non-employee stock options are not significant.

The Company also has authorized shares for issuance in connection with certain employee stock benefit plans.

Restricted Stock

5.48

FLUOR CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

(In thousands, except per share amounts)	Shares	Amount	Additional Capital	Unamortized Executive Stock Plan Expense	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2001	80,107	$801	$352,960	$(22,779)	$(49,805)	$508,089	$ 789,266
Comprehensive income							
Net earnings	—	—	—	—	—	163,615	163,615
Foreign currency translation adjustment (net of deferred taxes of $1,623)	—	—	—	—	2,538	—	2,538
Pension plan adjustment (net of deferred taxes of $12,307)	—	—	—	—	(28,716)	—	(28,716)
Comprehensive income							137,437
Cash dividends ($0.64 per share)	—	—	—	—	—	(51,485)	(51,485)
Exercise of stock options	618	6	14,845	—	—	—	14,851
Stock option tax benefit	—	—	2,476	—	—	—	2,476
Amortization of executive stock plan expense	—	—	—	10,433	—	—	10,433
Purchases of common stock	(726)	(7)	(18,869)	—	—	—	(18,876)
Cancellation of restricted stock	(56)	—	(1,237)	1,002	—	—	(235)
Issuance of restricted stock	245	2	7,257	(7,259)	—	—	—
Balance at December 31, 2002	80,188	802	357,432	(18,603)	(75,983)	620,219	883,867
Comprehensive income							
Net earnings	—	—	—	—	—	157,450	157,450
Foreign currency translation adjustment (net of deferred taxes of $24,711)	—	—	—	—	38,650	—	38,650
Pension plan adjustment (net of deferred taxes of $857)	—	—	—	—	1,998	—	1,998
Comprehensive income							198,098
Cash dividends ($0.64 per share)	—	—	—	—	—	(52,287)	(52,287)
Exercise of stock options	1,101	12	28,490	—	—	—	28,502
Stock option tax benefit	—	—	3,652	—	—	—	3,652
Amortization of executive stock plan expense	—	—	—	12,526	—	—	12,526
Purchases of common stock	(94)	(1)	(2,690)	—	—	—	(2,691)
Restricted stock cancelled for withholding tax	(75)	(1)	(1,684)	—	—	—	(1,685)
Conversion of restricted stock units	—	—	2,387	11,196	—	—	13,583
Cancellation of restricted stock	(97)	(1)	(3,534)	1,504	—	—	(2,031)
Issuance of restricted stock	1,079	10	31,025	(31,035)	—	—	—
Balance at December 31, 2003	82,102	821	415,078	(24,412)	(35,335)	725,382	1,081,534
Comprehensive income							
Net earnings	—	—	—	—	—	186,695	186,695
Foreign currency translation adjustment (net of deferred taxes of $25,469)	—	—	—	—	42,103	—	42,103
Pension plan adjustment (net of deferred taxes of $1,628)	—	—	—	—	(3,798)	—	(3,798)
Comprehensive income							225,000
Cash dividends ($0.64 per share)	—	—	—	—	—	(53,476)	(53,476)
Exercise of stock options	2,011	20	61,667	—	—	—	61,687
Stock option tax benefit	—	—	14,009	—	—	—	14,009
Amortization of executive stock plan expense	—	—	—	16,039	—	—	16,039
Restricted stock cancelled for withholding tax	(213)	(2)	(8,412)	—	—	—	(8,414)
Cancellation of restricted stock	(31)	(1)	(698)	112	—	—	(587)
Issuance of restricted stock	669	7	25,489	(25,496)	—	—	—
Balance at December 31, 2004	84,538	$845	$507,133	$(33,757)	$ 2,970	$858,601	$1,335,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Plans (In Part)

The company's executive stock plans provide for grants of nonqualified or incentive stock options, restricted stock awards and stock appreciation rights ("SARS"). All executive stock plans are administered by the Organization and Compensation Committee of the Board of Directors ("Committee") comprised of outside directors, none of whom are eligible to participate in the plans. Option grant prices are determined by the Committee and are established at the fair value of the company's common stock at the date of grant. Options and SARS normally extend for 10 years and become exercisable over a vesting period determined by the Committee, which can include accelerated vesting for achievement of performance or stock price objectives.

During the year ended December 31, 2004, the company issued no stock options or SARS as part of its executive incentive program. During the year ended December 31, 2003, the company issued 1,085,950 nonqualified stock options and 51,500 SARS with annual vesting of 25 percent. During the year ended December 31, 2002, the company issued 736,660 nonqualified stock options and 34,300 SARS with annual vesting of 25 percent.

Restricted stock awards issued under the plans provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed or performance objectives have been attained as established by the Committee. Upon termination of employment, shares upon which restrictions have not lapsed must be returned to the company. Restricted stock granted under the plans totaled 671,050 shares, 1,079,813 shares and 245,110 shares in the years ended December 31, 2004, 2003 and 2002, respectively. The weighted-average grant date fair value of restricted stock granted during the years ended December 31, 2004, 2003 and 2002 was $38, $29 and $30 per share, respectively. Recorded compensation cost, net of tax, for restricted stock plans totaled $10 million, $7 million and $4 million for the years ended December 31, 2004, 2003 and 2002, respectively.

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At December 31, 2004, there are a maximum of 3,737,298 shares available for future grant. Available for grant includes shares which may be granted by the Committee under the company's various stock plans, as either stock options, on a share-for-share basis, or restricted stock, on the basis of one share for each 1.75 available shares.

Conversion of Preferred Stock

5.49

FORTUNE BRANDS, INC. (DEC)

Consolidated Statement of Stockholders' Equity

(In millions except per share amounts)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Cost	Total
Balance at December 31, 2001	$8.6	$717.4	$113.2	$(115.3)	$4,141.3	$(2,762.5)	$2,102.7
Comprehensive income							
Net income	—	—	—	—	525.6	—	525.6
Foreign exchange adjustments	—	—	—	21.1	—	—	21.1
Minimum pension liability adjustments	—	—	—	(67.0)	—	—	(67.0)
Total comprehensive income	—	—	—	(45.9)	525.6	—	479.7
Dividends ($1.02 per share)	—	—	—	—	(153.4)	—	(153.4)
Purchases (5.7 shares)	—	—	—	—	—	(278.0)	(278.0)
Tax benefit on exercise of stock options	—	—	29.2	—	—	—	29.2
Conversion of preferred stock (0.1 shares), delivery of stock plan shares (4.6 shares) and sale of stock in a subsidiary	(0.7)	—	(26.4)	—	—	160.1	133.0
Balance at December 31, 2002	$7.9	$717.4	$116.0	$(161.2)	$4,513.5	$(2,880.4)	$2,313.2

(continued)

(In millions except per share amounts)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Cost	Total
Balance at December 31, 2002	$7.9	$717.4	$116.0	$(161.2)	$4,513.5	$(2,880.4)	$2,313.2
Comprehensive income							
Net income	—	—	—	—	579.2	—	579.2
Foreign exchange adjustments	—	—	—	76.0	—	—	76.0
Minimum pension liability adjustments	—	—	—	(4.6)	—	—	(4.6)
Total comprehensive income	—	—	—	71.4	579.2	—	650.6
Dividends ($1.14 per share)	—	—	—	—	(166.9)	—	(166.9)
Purchases (4.1 shares)	—	—	—	—	—	(204.5)	(204.5)
Tax benefit on exercise of stock options	—	—	27.6	—	—	—	27.6
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (3.2 shares)	(0.4)	—	(16.9)	—	—	116.8	99.5
Balance at December 31, 2003	$7.5	$717.4	$126.7	$(89.8)	$4,925.8	$(2,968.1)	$2,719.5
Comprehensive income							
Net income	—	—	—	—	783.8	—	783.8
Foreign exchange adjustments	—	—	—	52.2	—	—	52.2
Minimum pension liability adjustments	—	—	—	44.0	—	—	44.0
Total comprehensive income	—	—	—	96.2	783.8	—	880.0
Dividends ($1.26 per share)	—	—	—	—	(183.5)	—	(183.5)
Purchases (4.4 shares)	—	—	—	—	—	(322.1)	(322.1)
Tax benefit on exercise of stock options	—	—	35.0	—	—	—	35.0
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (2.3 shares)	(0.4)	—	(5.9)	—	—	87.0	80.7
Balance at December 31, 2004	$7.1	$717.4	$155.8	$ 6.4	$5,526.1	$(3,203.2)	$3,209.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. $2.67 Convertible Preferred Stock—Redeemable at Company's Option

Shares of the $2.67 Convertible Preferred stock issued and outstanding at December 31, 2004, 2003 and 2002 were 233,327 shares, 245,093 shares and 258,656 shares, respectively. Reacquired, redeemed or converted authorized shares that are not outstanding are required to be retired or restored to the status of authorized but unissued shares of preferred stock without series designation. The holders of $2.67 Convertible Preferred stock are entitled to cumulative dividends, three-tenths of a vote per share (in certain events, to the exclusion of the common shares), preference in liquidation over holders of common stock of $30.50 per share plus accrued dividends and to convert each share of Convertible Preferred stock into 6.205 shares of common stock. Authorized but unissued common shares are reserved for issuance upon the conversions, but treasury shares may be and are delivered. Shares converted were 11,766 shares, 13,563 shares and 22,859 shares during 2004, 2003 and 2002, respectively. The Company may redeem the Convertible Preferred stock at a price of $30.50 per share, plus accrued dividends.

A cash dividend of $2.67 per share in the aggregate amount of $0.6 million, $0.7 million and $0.7 million was paid in the years ended December 31, 2004, 2003 and 2002, respectively.

Contingent Acquisition Payment

5.50

AVNET, INC. (JUN)

Consolidated Statements of Shareholders' Equity

(Thousands, except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, June 29, 2001	$117,840	$542,733	$1,770,645	$ (56,297)	$(331)	$2,374,590
Net loss	—	—	(664,931)	—	—	(664,931)
Translation adjustments	—	—	—	101,159	—	101,159
Minimum pension liability adjustment, net of tax of $11,155	—	—	—	(17,050)	—	(17,050)
Comprehensive loss					—	(580,822)
Dividends, $0.15 per share	—	—	(17,706)	—	—	(17,706)
Stock option and incentive programs, including related tax benefits of $4,217	1,591	26,704	—	—	153	28,448
Balance, June 28, 2002	119,431	569,437	1,088,008	27,812	(178)	1,804,510
Net loss	—	—	(46,116)	—	—	(46,116)
Translation adjustments	—	—	—	98,346	—	98,346
Minimum pension liability adjustment, net of tax of $19,988	—	—	—	(22,951)	—	(22,951)
Comprehensive income						29,279
Stock option and incentive programs, including related tax benefits of $278	124	(1,427)	—	—	36	(1,267)
Balance, June 27, 2003	119,555	568,010	1,041,892	103,207	(142)	1,832,522
Net income	—	—	72,897	—	—	72,897
Translation adjustments	—	—	—	45,470	—	45,470
Minimum pension liability adjustment, net of tax of $1,651	—	—	—	2,518	—	2,518
Comprehensive income						120,885
Eurotronics contingent purchase price (Note 2)	—	(15,000)	—	—	—	(15,000)
Stock option and incentive programs, including related tax benefits of $756	928	14,050	—	—	41	15,019
Balance, July 3, 2004	$120,483	$567,060	$1,114,789	$151,195	$(101)	$1,953,426

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions and Dispositions

During the last three fiscal years, the Company has completed one acquisition—the Gamma Optronik AB acquisition completed during fiscal 2002. During the last three fiscal years, the Company has also acquired remaining minority interests in certain majority-owned subsidiaries in addition to completing certain contingent purchase price payments associated with businesses acquired in previous years.

During fiscal 2004, the Company completed a contingent purchase price payment associated with its January 2000 acquisition of 84% of the stock of Eurotronics B.V., which went to market as SEI. The share purchase agreement for this acquisition called for an additional payment of cash or common stock of the Company if the Company's share price did not reach $45.25 per share by January 2004. As a result, during the fourth quarter of fiscal 2004, the Company paid, in cash, the sum of $48,930,000 as settlement of the Company's final obligation from this acquisition. This payment resulted in an addition to goodwill of $33,930,000 and a reduction of additional paid-in capital of $15,000,000, based upon an initial estimate of the fair value of the stock guarantee incorporated into the purchase price accounting at the time of the Eurotronics B.V. acquisition. During fiscal 2004, the Company also acquired the interest of a 9% minority shareholder in the Company's majority-owned Brazilian subsidiary, Avnet do Brasil, LTDA, as well as making contigent purchase price payments associated with certain companies acquired in prior years. The acquisition of minority interests and contingent purchase price payments discussed above required a total investment of $50,528,000, all of which was paid in cash.

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

APPLE COMPUTER, INC. (SEP)

Consolidated Statements of Shareholders' Equity

(In millions, except share amounts which are in thousands)	Common Stock Shares	Common Stock Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances as of September 29, 2001	350,922	$1,693	$(11)	$2,260	$(22)	$3,920
Components of comprehensive income:						
Net income	—	—	—	65	—	65
Change in foreign currency translation	—	—	—	—	5	5
Change in unrealized gain on available-for-sale securities, net of tax	—	—	—	—	(17)	(17)
Change in unrealized gain on derivative investments, net of tax	—	—	—	—	(15)	(15)
Total comprehensive income						38
Amortization of deferred stock compensation	—	—	4	—	—	4
Common stock issued under stock plans	8,037	105	—	—	—	105
Tax benefit related to stock options	—	28	—	—	—	28
Balances as of September 28, 2002	358,959	$1,826	$ (7)	$2,325	$(49)	$4,095
Components of comprehensive income:						
Net income	—	—	—	69	—	69
Change in foreign currency translation	—	—	—	—	31	31
Change in unrealized gain on available-for-sale securities, net of tax	—	—	—	—	(12)	(12)
Change in unrealized gain on derivative investments, net of tax	—	—	—	—	(5)	(5)
Total comprehensive income						83
Amortization of deferred stock compensation	—	—	15	—	—	15
Write-off of deferred stock compensation	—	—	5	—	—	5
Common stock issued under stock plans	9,299	128	(75)	—	—	53
Settlement of forward purchase agreement	(1,531)	(35)	—	—	—	(35)
Tax benefit related to stock options	—	7	—	—	—	7
Balances as of September 27, 2003	366,727	$1,926	$(62)	$2,394	$(35)	$4,223

(continued)

(In millions, except share amounts which are in thousands)	Common Stock Shares	Common Stock Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances as of September 27, 2003	366,727	$1,926	$(62)	$2,394	$(35)	$4,223
Components of comprehensive income:						
Net income	—	—	—	276	—	276
Change in foreign currency translation	—	—	—	—	13	13
Change in unrealized gain on available-for-sale securities, net of tax	—	—	—	—	(5)	(5)
Change in unrealized loss on derivative investments, net of tax	—	—	—	—	12	12
Total comprehensive income						296
Issuance of restricted stock units	—	64	(64)	—	—	—
Adjustment to common stock related to a prior year acquisition	(79)	(2)	—	—	—	(2)
Amortization of deferred stock compensation	—	—	33	—	—	33
Common stock issued under stock plans	24,796	427	—	—	—	427
Tax benefit related to stock options	—	99	—	—	—	99
Balances as of September 25, 2004	391,444	$2,514	$(93)	$2,670	$(15)	$5,076

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Shareholders' Equity

Restricted Stock Units

During fiscal 2004, the Company's Board of Directors approved the grant of 2.515 million restricted stock units to selected members of the Company's senior management, excluding its Chief Executive Officer (CEO). These restricted stock units generally vest in two equal installments on the second and fourth anniversaries of the date of grant. The Company has recorded the $64.4 million value of these restricted stock units as a component of shareholders' equity and will amortize that amount on a straight-line basis over the 4 years requisite service period. The value of the restricted stock units was based on the closing market price of the Company's common stock on the date of grant. Quarterly amortization will be approximately $4.0 million, of which approximately $0.5 million will be included in cost of sales; $1.3 million will be included in research and development expense; and the remaining $2.2 million will be included in selling, general and administrative expense. The restricted stock units have been included in the calculation of diluted earnings per share utilizing the treasury stock method.

CEO Restricted Stock Award

On March 19, 2003, the Company entered into an Option Cancellation and Restricted Stock Award Agreement (the Agreement) with Mr. Steven P. Jobs, its CEO. The Agreement cancelled stock option awards for the purchase of 27.5 million shares of the Company's common stock previously granted to Mr. Jobs in 2000 and 2001. Mr. Jobs retained options to purchase 60,000 shares of the Company's common stock granted in August of 1997 in his capacity as a member of the Company's Board of Directors, prior to becoming the Company's CEO. The Agreement replaced the cancelled options with a restricted stock award of 5 million shares of the Company's common stock. The restricted stock award generally vests three years from date of grant. Vesting of some or all of the restricted shares will be accelerated in the event Mr. Jobs is terminated without cause, dies, or has his management role reduced following a change in control of the Company.

The Company has recorded the value of the restricted stock award of $74.75 million as a component of shareholders' equity and is amortizing that amount on a straight-line basis over the 3 year service period. The value of the restricted stock award was based on the closing market price of the Company's common stock of $14.95 on the date of the award. Amortization expense for this award, which amounts to approximately $6.2 million per quarter, has been included in selling, general, and administrative expense beginning in March 2003 and will continue to be included through March 2006. The 5 million restricted shares have been included in the calculation of diluted earnings per share utilizing the treasury stock method.

5.54

BAKER HUGHES INCORPORATED (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned Compensation	Total
Balance, December 31, 2001	$336.0	$3,119.3	$ 182.3	$(309.8)	$ —	$3,327.8
Comprehensive income:						
Net income			168.9			
Foreign currency translation adjustments:						
Reclassifications included in net income due to sale of business				20.0		
Translation adjustments, net of tax of $(0.2)				74.5		
Change in minimum pension liability, net of tax of $15.7				(31.2)		
Total comprehensive income						232.2
Cash dividends ($0.46 per share)			(154.9)			(154.9)
Stock issued pursuant to employee stock plans	1.6	39.6				41.2
Repurchase and retirement of common stock	(1.8)	(47.3)				(49.1)
Balance, December 31, 2002	335.8	3,111.6	196.3	(246.5)	—	3,397.2
Comprehensive income:						
Net income			128.9			
Foreign currency translation adjustments:						
Reclassifications included in net income due to sale of business				17.7		
Translation adjustments, net of tax of $0.3				95.6		
Change in minimum pension liability, net of tax of $5.3				(17.9)		
Total comprehensive income						224.3
Cash dividends ($0.46 per share)			(154.3)			(154.3)
Stock issued pursuant to employee stock plans	2.5	62.1				64.6
Repurchase and retirement of common stock	(6.3)	(175.1)				(181.4)
Balance, December 31, 2003	332.0	2,998.6	170.9	(151.1)	—	3,350.4
Comprehensive income:						
Net income			528.6			
Foreign currency translation adjustments:						
Reclassifications included in net income due to sale of business				6.6		
Translation adjustments, net of tax of $2.3				30.8		
Change in minimum pension liability, net of tax of $(1.8)				4.0		
Loss on derivative instruments, net of tax of $0.01				(0.1)		
Total comprehensive income						569.9
Cash dividends ($0.46 per share)			(153.6)			(153.6)
Issuance of restricted stock	0.2	6.7			(6.9)	—
Amortization of unearned compensation, net of tax of $1.0					1.8	1.8
Stock issued pursuant to employee stock plans	4.4	122.5				126.9
Balance, December 31, 2004	$336.6	$3,127.8	$ 545.9	$(109.8)	$(5.1)	$3,895.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Employee Stock Plans

We have awarded restricted stock to directors and certain executive officers. The fair value of the restricted stock on the date of grant is amortized ratably over the vesting period.

The following table summarizes the restricted stock awarded during the years ended December 31.

	2004	2003	2002
Number of shares of restricted stock awarded (in thousands)	163	10	97
Fair value of restricted stock at date of grant (in millions)	$6.9	$0.3	$2.8

Employee Stock Ownership Plan

5.55

BADGER METER, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands except per share amounts)	Common Stock	Capital in Excess of Par Value	Reinvested Earnings	Other Comprehensive Income (Loss)	Employee Benefit Stock	Treasury Stock	Total
Balance, December 31, 2001	$9,354	$11,491	$50,736	$ —	$(1,900)	$(26,679)	$43,002
Comprehensive income							
Net earnings			7,271				7,271
Other comprehensive income (loss):							
Minimum employee benefit liability (net of $288 tax effect)				(453)			(453)
Foreign currency translation				392			392
Comprehensive income							7,210
Cash dividends of $0.51 per share			(3,231)				(3,231)
Stock options exercised	122	854					976
Tax benefit on stock options and dividends		307					307
ESSOP transactions					365		365
Treasury stock purchases						(1,595)	(1,595)
Issuance of treasury and common stock	48	755				258	1,061
Balance, December 31, 2002	9,524	13,407	54,776	(61)	(1,535)	(28,016)	48,095)
Comprehensive income:							
Net earnings			7,577				7,577
Other comprehensive income (loss):							
Mininum employee benefit liability (net of $31 tax effect)				(49)			(49)
Foreign currency translation				1,390			1,390
Comprehensive income							8,918
Cash dividends of $0.53 per share			(3,425)				(3,425)
Stock options exercised	168	1,039					1,207
Tax benefit on stock options and dividends		585					585
ESSOP transactions					250		250
Treasury stock purchases						(1,066)	(1,066)
Issuance of treasury stock		202				405	607
Balance, December 31, 2003	9,692	15,233	58,928	1,280	(1,285)	(28,677)	55,171
Comprehensive income:							
Net earnings			9,633				9,633
Other comprehensive income (loss):							
Minimum employee benefit liability (net of $6 tax effect)				27			27
Foreign currency translation				717			717
Comprehensive income							10,377
Cash dividends of $0.55 per share			(3,633)				(3,633)
Stock options exercised	180	1,769					1,949
Tax benefit on stock options and dividends		877					877
ESSOP transactions					220		220
Treasury stock purchases						(1,711)	(1,711)
Issuance of treasury stock		434				382	816
Balance, December 31, 2004	$9,872	$18,313	$64,928	$2,024	$(1,065)	$(30,006)	$64,066

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Employee Benefit Plans

C. Badger Meter Employee Savings and Stock Ownership Plan

The Badger Meter Employee Savings and Stock Ownership Plan (the ESSOP) has used proceeds from loans, guaranteed by the Company, to purchase Common Stock of the Company from shares held in treasury. The Company is obligated to contribute sufficient cash to the ESSOP to enable it to repay the loan principal and interest. The principal amount of the loan was $1,065,000 as of December 31, 2004, and $1,285,000 as of December 31, 2003. This principal amount has been recorded as long-term debt and a like amount of unearned compensation has been recorded as a reduction of shareholders' equity in the accompanying Consolidated Balance Sheets.

The Company made principal payments of $220,000, $250,000 and $365,000 in 2004, 2003 and 2002, respectively. These associated commitments released shares of Common Stock (21,396 in 2004, 24,314 in 2003 and 35,499 in 2002) for allocation to participants in the ESSOP. The ESSOP held unreleased shares of 103,578, 124,974 and 149,288 as of December 31, 2004, 2003 and 2002, respectively, with a fair value of $3,104,000, $2,384,000 and $2,396,000 as of December 31, 2004, 2003 and 2002, respectively. Unreleased shares are not considered outstanding for purposes of computing earnings per share.

The ESSOP includes a voluntary 401(k) savings plan which allows certain employees to defer up to 20% of their income on a pretax basis subject to limits on maximum amounts. The Company matches 25% of each employee's contribution, with the match percentage applying to a maximum of 7% of the employee's salary. The match is paid using Company stock released through the ESSOP loan payments. For ESSOP shares purchased prior to 1993, compensation expense is recognized based on the original purchase price of the shares released and dividends on unreleased shares are charged to retained earnings. For shares purchased after 1992, expense is based on the market value of the shares on the date released and dividends on unreleased shares are accounted for as additional interest expense. At December 31, 2004, the Company intends to contribute $150,000 to the ESSOP in 2005 to be used to pay down the existing loan. This commitment releases shares to satisfy the 401(k) match for 2004. Compensation expense of $225,000, $231,000 and $234,000 was recognized for the match for 2004, 2003 and 2002, respectively.

Stock Loan Program

5.56

TASTY BAKING COMPANY (DEC)

Consolidated Statements of Changes in Capital Accounts

	2004		2003		2002	
(000's)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock:						
Balance, beginning of year	9,116	$ 4,558	9,116	$ 4,558	9,116	$ 4,558
Balance, end of year	9,116	$ 4,558	9,116	$ 4,558	9,116	$ 4,558
Capital in excess of par value of stock:						
Balance, beginning of year		$ 29,393		$ 29,433		$ 29,389
Issuances (terminations): Management stock purchase plan		(98)		(42)		17
Stock option plan		—		(7)		(25)
Tax benefits related to management stock purchase plan and stock option plan		(3)		9		52
Balance, end of year		$ 29,292		$ 29,393		$ 29,433
Accumulated other comprehensive (loss):						
Balance, beginning of year		$ (1,236)		$ —		$ —
Minimum pension liability, net of taxes of $810 and $723		(1,162)		(1,236)		—
Balance, end of year		$ (2,398)		$ (1,236)		$ —
Treasury stock:						
Balance, beginning of year	(1,020)	$(12,545)	(1,013)	$(12,539)	(1,065)	$(13,167)
Management stock purchase plan: Reissued	—	—	1	17	12	159
Reacquired	(20)	(183)	(8)	(75)	(7)	(129)
Net shares reissued in connection with:						
Stock option plan	—	—	—	52	47	598
Restricted stock grant	112	—	—	—	—	—
Purchase of stock for treasury	(11)	(95)	—	—	—	—
Balance, end of year	(939)	$(12,823)	(1,020)	$(12,545)	(1,013)	$(12,539)
Management stock purchase plan receivables and deferrals:						
Balance, beginning of year		$ (392)		$ (549)		$ (554)
Common stock issued		—		(13)		(176)
Common stock repurchased		242		93		99
Note payments and amortization of deferred compensation		47		77		82
Balance, end of year		$ (103)		$ (392)		$ (549)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (000's, except share and per share amounts)

11. Management Stock Purchase Plan

In March of 2003, the Management Stock Purchase Plan was discontinued prospectively. The Management Stock Purchase Plan provided that common shares may be sold to management employees from time to time at prices designated by the Board of Directors (not less than 50% of the fair market value at date of grant) and under certain restrictions and obligations to resell to the company. During 2003, 1,400 shares of common stock were sold at 50% of fair market value at date of grant. The aggregate sales price of these shares was $7 for which collateral judgment notes were obtained to be paid in equal quarterly installments (not to exceed 40) with interest on the unpaid balance at 2.13%.

For accounting purposes, the difference between the fair market value of the stock at the date of grant and the purchase price in 2003 was $6 and represented compensation. The compensation is deferred and, together with the notes receivable, is shown as a deduction from shareholders' equity. The deferred compensation is amortized over a ten-year vesting period or the period the employees perform services, whichever is less. Unvested shares are forfeited if the employee separates from service for anything other than retirement. Amortization charged to income amounted to $22, $38, and $42 in 2004, 2003, and 2002, respectively.

In accordance with an Internal Revenue Service regulation, the company includes both the dividends paid on shares restricted under the plan, and the difference between the purchase price of the stock at the date of the grant and the fair market value at the date the plan restrictions lapse, as employee compensation for federal income tax purposes. The tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book purposes have been credited to capital in excess of par value of stock.

Warrants

5.57

MILACRON INC. (DEC)

Consolidated Statements of Comprehensive Income and Shareholders' Equity (Deficit)

(In millions)	2004	2003	2002
4% cumulative preferred shares			
Balance at beginning and end of period	$ 6.0	$ 6.0	$ 6.0
6% Series B convertible preferred stock			
Balance at beginning of period	$ —	$ —	$ —
Net proceeds from issuance	97.0	—	—
Beneficial conversion feature	15.9	—	—
Balance at end of period	$ 112.9	$ —	$ —
Common shares			
Balance at beginning of period	$ 318.8	$ 317.3	$ 314.9
Stock options exercised and net restricted stock activity	3.1	.2	.5
Reissuance of treasury shares	1.6	1.3	1.9
Beneficial conversion feature related to Series A notes	6.6	—	—
Conversion of Series A notes to common stock	28.1	—	—
Conversion to Series B convertible preferred stock	(34.6)	—	—
Net proceeds from rights offering	24.1	—	—
Balance at end of period	$ 347.7	$ 318.8	$ 317.3
Contingent warrants			
Balance at beginning of period	$ —	$ —	$ —
Issuance of contingent warrants	.5	—	—
Balance at end of period	$ .5	$ —	$ —
Retained earnings (accumulated deficit)			
December 31, 2001 balance as originally reported			$ 165.0
Effect of restatement for change in method of accounting			9.8
Balance at beginning of period	$(241.7)	$ (50.0)	$ 174.8
Net loss for the period	(51.8)	(190.9)	(223.2)
Dividends paid and declared			
4% cumulative preferred shares	(.4)	(.1)	(.2)
6% Series B convertible preferred stock	(2.9)	—	—
Common shares	—	(.7)	(1.4)
Beneficial conversion feature related to Series B convertible preferred stock	(15.9)	—	—
Balance at end of period	$(312.7)	$(241.7)	$ (50.0)
Accumulated other comprehensive income (loss)			
Balance at beginning of period	(106.7)	(129.8)	(51.0)
Foreign currency translation adjustments	15.9	8.5	5.9
Minimum pension liability adjustment	(13.0)	14.6	(95.4)
Other	(.2)	—	10.7
Balance at end of period	$(104.0)	$(106.7)	$(129.8)
Total shareholders' equity (deficit)	$ 50.4	$ (23.6)	$ 143.5
Net loss for the period	$ (51.8)	$(190.9)	(223.2)
Change in accumulated other comprehensive income (loss)	2.7	23.1	(78.8)
Total comprehensive loss	$ (49.1)	$(167.8)	$(302.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

On April 15, 2004, the $30.0 million of Series A Notes issued to Glencore Finance AG and Mizuho International plc on March 12, 2004, were converted into 15,000,000 common shares. The conversion involved the reissuance of 4,607,088 treasury shares and the issuance of 10,392,912 authorized but previously unissued common shares.

On June 9, 2004, the company's shareholders, among other things, approved the following resolutions:

- an increase in the number of authorized common shares from 50.0 million to 165.0 million;
- a decrease in the par value of each common share from $1.00 per share to $.01 per share;
- the issuance of a new series of Series B Preferred Stock that is convertible into common shares; and
- the issuance of contingent warrants which will be exercisable to purchase additional shares of the company's common stock under certain circumstances.

On June 10, 2004, the company issued to holders of the Series B Preferred Stock contingent warrants to purchase an aggregate of one million shares of its common stock for $.01 per share. The contingent warrants are exercisable only if a test based on the company's financial performance for 2005 is not satisfied. The test requires the company to achieve EBITDA, as defined, of at least $60 million in 2005. If the test is not satisfied, the contingent warrants will be exercisable until March 25, 2011. If the test based on financial performance is satisfied, the contingent warrants will immediately terminate and will not be exercisable. The contingent warrants are included in shareholders' equity at an amount representative of their relative fair value in relation to the Series B Preferred Stock. If the contingnent warrants do not become exercisable, their carrying value will be transferred to the carrying value of the Series B Preferred Stock. If they should be exercised, their carrying value will be included in the value of the newly issued common stock.

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

	2004	2003	2002	2001
Final statement	301	299	294	301
Follows income statement and balance sheet	279	274	280	273
Between income statement and balance sheet	19	26	26	26
First statement	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

	2004	2003	2002	2001
Indirect method	592	593	593	592
Direct method	8	7	7	8
Total Companies	**600**	**600**	**600**	**600**

6.11

TABLE 6-3: CASH FLOWS FROM OPERATING ACTIVITIES—RECONCILING ITEMS

	2004	2003	2002	2001
Income Statement Items				
Depreciation and/or amortization	596	600	600	600
Employee related costs	222	190	182	157
Gain or loss on sale of property	218	203	213	195
Gain or loss on sale of assets other than property	169	183	163	163
Provision for bad debt	154	142	144	134
Equity in investee's earnings	153	154	142	145
Intangible asset amortization	144	161	143	151
Restructuring	126	146	140	187
Changes in Operating Assets and Liabilities				
Accounts receivable	555	548	527	567
Inventories	500	492	480	525
Accounts receivable combined with inventories and/or other items	44	60	79	20
Accounts payable	351	342	300	291
Accounts payable combined with other items	227	234	270	285
Income taxes payable	241	230	233	226
Employee related liabilities	119	109	101	96

6.12

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	2004	2003	2002	2001
Interest Payments				
Notes to financial statements	306	310	312	333
Bottom of Statement of Cash Flows	273	264	259	245
Within Statement of Cash Flows	8	9	8	8
Amount not disclosed	13	17	21	14
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	310	310	312	331
Bottom of Statement of Cash Flows	278	271	262	247
Within Statement of Cash Flows	9	12	9	11
Amount not disclosed	3	7	17	11
Total Companies	**600**	**600**	**600**	**600**

DIRECT METHOD

6.13

ARDEN GROUP, INC. (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Cash received from customers	$ 503,553	$ 488,562	$ 402,847
Cash paid to suppliers and employees	(468,528)	(430,982)	(369,881)
Interest and dividends received	1,813	1,472	1,604
Interest paid	(184)	(258)	(331)
Income taxes paid	(26,046)	(6,244)	(8,706)
Net cash provided by operating activities	10,608	52,550	25,533
Cash flows from investing activities:			
Capital expenditures	(12,641)	(5,752)	(4,023)
Purchases of investments	(15,737)	(11,836)	(21,667)
Sales of investments	25,070	6,828	14,686
Proceeds from the sale of property, plant and equipment	54	99	68
Net cash used in investing activities	(3,254)	(10,661)	(10,936)
Cash flows from financing activities:			
Purchase and retirement of company stock		(296)	
Principal payments under capital lease obligations	(246)	(220)	(250)
Loan payments received from officer/director			135
Proceeds from exercise of stock options	58	874	576
Cash dividends paid	(70,100)	(811)	
Net cash provided by (used in) financing activities	(70,288)	(453)	461
Net increase (decrease) in cash and cash equivalents	(62,934)	41,436	15,058
Cash and cash equivalents at beginning of year	71,597	30,161	15,103
Cash and cash equivalents at end of year	$ 8,663	$ 71,597	$ 30,161
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 22,672	$ 16,581	$ 13,932
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,990	8,126	8,139
Provision for losses on accounts and notes receivable	15		(20)
Provision for deferred income taxes	849	(5,022)	(698)
Loss on impairment of long-lived assets		4,311	
Net loss (gain) from the disposal of property, plant and equipment	23	33	(19)
Realized gain on investments, net	(1,787)	(950)	(98)
Amortization of discount on investments	(196)	(128)	(143)
Tax benefit to stock option transactions	38	232	110
Stock compensation expense		90	
Changes in assets and liabilities net of effects from noncash investing and financing activities:			
(Increase) decrease in assets:			
Accounts and notes receivable	713	(1,217)	1,450
Inventories	(1,768)	(2,455)	206
Other current assets	(236)	690	1,071
Other assets	307	822	178
Increase (decrease) in liabilities:			
Accounts payable and other accrued expenses	(20,386)	28,605	572
Deferred rent	399	691	724
Other liabilities	2,975	2,141	129
Net cash provided by operating activities	$ 10,608	$ 52,550	$ 25,533

6.14

EMC CORPORATION (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Cash received from customers	$ 8,329,367	$ 6,693,785	$ 6,145,949
Cash paid to suppliers and employees	(6,299,057)	(5,507,699)	(5,060,176)
Dividends and interest received	162,427	185,898	252,045
Interest paid	(6,423)	(3,067)	(11,797)
Income taxes (paid) refunded	(84,019)	152,313	119,713
Net cash provided by operating activities	2,102,295	1,521,230	1,445,734
Cash flows from investing activities:			
Additions to property, plant and equipment	(371,449)	(368,545)	(391,076)
Capitalized software development costs	(166,347)	(113,427)	(126,678)
Purchases of short and long-term available for sale securities	(8,391,782)	(7,453,138)	(9,972,491)
Sales of short and long-term available for sale securities	7,450,027	6,309,180	8,930,580
Maturities of short and long-term available for sale securities	83,659	304,407	226,409
Business acquisitions, net of cash (used) acquired	(590,410)	323,930	(21,993)
Other	(78,398)	(61,801)	(25,044)
Net cash used in investing activities	(2,064,700)	(1,059,394)	(1,380,293)
Cash flows from financing activities:			
Issuance of common stock	229,951	112,592	80,924
Purchase of treasury stock	(545,718)	(126,975)	(363,923)
Payment of short and long-term obligations	(8,196)	(30,406)	(29,694)
Issuance of short and long-term obligations	140	4,736	1,516
Net cash used in financing activities	(323,823)	(40,053)	(311,177)
Effect of exchange rate changes on cash	10,055	14,848	(585)
Net (decrease) increase in cash and cash equivalents	(276,173)	436,631	(246,321)
Cash and cash equivalents at beginning of year	1,752,976	1,316,345	1,562,666
Cash and cash equivalents at end of year	$ 1,476,803	$ 1,752,976	$ 1,316,345
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	$ 871,189	$ 496,108	$ (118,706)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	616,357	520,698	653,686
Non-cash restructuring, and other special charges (reversals)	19,291	45,969	(26,027)
Amortization of deferred compensation	59,715	13,725	13,077
Provision for doubtful accounts	10,067	1,761	35,171
Deferred income taxes, net	241,591	(19,068)	74,088
Tax benefit from stock options exercised	46,302	10,515	34,291
Other	(2,143)	9,256	32,720
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(208,595)	42,398	435,613
Inventories	21,084	(46,342)	240,377
Other assets	(20,554)	(25,760)	64,918
Accounts payable	108,827	(32,170)	4,240
Accrued expenses	75,346	(44,786)	(74,886)
Income taxes payable	(58,612)	230,156	(158,308)
Deferred revenue	298,407	412,818	236,813
Other liabilities	24,023	(94,048)	(1,333)
Net cash provided by operating activities	$ 2,102,295	$ 1,521,230	$ 1,445,734
Non-cash activity:			
Issuance of common stock and stock options exchanged in business combinations	$ 73,351	$ 3,109,899	$ —
Exchange of net assets for equity investment	—	—	3,560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Basis of Presentation

In 2004, we changed the method of presenting the statement of cash flows from the indirect method to the direct method, which is the preferred method of presentation. The prior years have been conformed to this method of presentation.

INDIRECT/RECONCILIATION METHOD

6.15

BAUSCH & LOMB INCORPORATED (DEC)

(In millions)	2004	2003	2002
Cash flows from operating activities			
Net income	$ 159.6	$ 125.5	$ 72.5
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	100.3	99.3	105.2
Amortization	24.9	25.6	24.9
Restructuring (reversal) charges and asset write-offs	—	(6.3)	49.0
Deferred income taxes	(51.4)	(26.4)	(59.5)
Stock compensation expense	7.1	7.1	7.3
Tax benefits associated with exercise of stock options	16.1	—	—
Gain from sale of investments available-for-sale	(0.3)	—	(18.1)
Loss on retirement of fixed assets	11.0	2.3	3.0
Changes in assets and liabilities			
Trade receivables	(17.9)	(14.3)	(27.1)
Inventories	12.8	18.0	57.1
Other current assets	16.6	10.6	12.0
Other long-term assets, including equipment on operating lease	(20.1)	(11.9)	23.4
Account payable and accrued liabilities	58.7	(12.0)	(31.9)
Income taxes payable	(9.0)	22.1	14.2
Other long-term liabilities	(27.9)	8.6	4.6
Net cash provided by operating activities	280.5	248.2	236.6
Cash flows from investing activities			
Capital expenditures	(118.9)	(91.5)	(91.9)
Net cash paid for acquisition of businesses and other intangibles	(2.1)	(6.4)	(7.1)
Sale price adjustment related to disposal of discontinued operations	—	—	(23.0)
Cash received from sale of investments available-for-sale	0.6	—	37.4
Other	(1.2)	3.8	(2.3)
Net cash used in investing activities	(121.6)	(94.1)	(86.9)
Cash flows from financing activities			
Termination of investor's interest in partnership	—	—	(200.0)
Repurchases of Common and Class B shares	(79.0)	(72.0)	(0.8)
Exercise of stock options	77.8	12.1	2.4
Net repayments of notes payable	—	(1.4)	(32.1)
Repayment of long-term debt	(196.6)	(200.7)	(183.1)
Proceeds from issuance of debt	0.1	210.1	225.0
Payment of dividends	(27.6)	(27.7)	(41.8)
Net cash used in financing activities	(225.3)	(79.6)	(230.4)
Effect of exchange rate changes on cash and cash equivalents	5.6	23.0	11.4
Net change in cash and cash equivalents	(60.8)	97.5	(69.3)
Cash and cash equivalents, beginning of year	562.6	465.1	534.4
Cash and cash equivalents, end of year	$ 501.8	$ 562.6	$ 465.1
Supplemental cash flow disclosures			
Cash paid for interest	$ 48.3	$ 57.4	$ 52.7
Net cash payments for income taxes	115.2	58.2	21.9

6.16

ROCKWELL AUTOMATION, INC. (SEP)

(In millions)	2004	2003	2002
Continuing operations:			
Operating activities:			
Income from continuing operations before accounting change	$ 354.1	$ 281.4	$ 223.7
Adjustments to arrive at cash provided by operating activities:			
Depreciation	159.7	168.5	178.4
Amortization of intangible assets	27.0	22.1	19.3
Income tax matters	(46.3)	(69.4)	(48.2)
Retirement benefit expense	92.2	70.7	53.0
Pension trust contributions	(157.3)	(65.9)	(35.8)
Deferred income taxes	63.6	26.4	(14.6)
Net loss on dispositions of property and business	24.3	12.2	2.7
Income tax benefit from the exercise of stock options	40.2	20.9	6.0
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency adjustments:			
Receivables	(48.2)	(13.0)	66.4
Inventories	(28.5)	20.3	47.9
Accounts payable	37.1	6.9	(23.3)
Compensation and benefits	35.2	7.7	(29.1)
Income taxes	7.2	(32.8)	14.0
Other assets and liabilities	36.6	(36.1)	1.5
Cash provided by operating activities	596.9	419.9	461.9
Investing activities:			
Capital expenditures	(98.0)	(107.6)	(99.6)
Acquisition of businesses, net of cash acquired	—	(25.7)	(71.0)
Proceeds from sales of business and property	32.4	6.6	3.6
Other investing activities	0.4	(4.7)	(4.0)
Cash used for investing activities	(65.2)	(131.4)	(171.0)
Financing activities:			
Repayments of debt	(8.4)	(153.4)	—
Cash dividends	(122.5)	(122.4)	(122.1)
Purchases of treasury stock	(258.4)	(128.4)	—
Proceeds from the exercise of stock options	78.5	70.4	24.7
Other financing activities	(1.2)	(1.5)	—
Cash used for financing activities	(312.0)	(335.3)	(97.4)
Effect of exchange rate changes on cash	1.8	(31.0)	(0.4)
Cash provided by (used for) continuing operations	221.5	(77.8)	193.1
Cash provided by (used for) discontinued operations	25.9	15.0	(25.3)
Increase (decrease) in cash	247.4	(62.8)	167.8
Cash and cash equivalents at beginning of year	226.4	289.2	121.4
Cash and cash equivalents at end of year	$ 473.8	$ 226.4	$ 289.2

ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS

Employee Related Costs

6.17

BOWNE & CO., INC. (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Loss from continuing operations	$ (8,198)	$ (9,554)	$ (3,002)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation	32,121	35,466	35,684
Amortization	2,713	2,478	874
Asset impairment charges	518	2,198	1,575
Gain on sale of building	(896)	—	(4,889)
Loss on extinguishment of debt	8,815	—	—
Provision for doubtful accounts	2,026	4,284	6,697
Gain on sale of certain printing assets	—	—	(15,369)
Loss on disposal of fixed assets	469	556	935
Gain on sales of securities and other investments	—	(1,022)	—
Provision for deferred employee compensation	13,063	14,340	11,085
Deferred income taxes	2,825	(8,502)	(996)
Other	2,285	2,087	(5,650)
Changes in other assets and liabilities, net of acquisitions, discontinued operations, and certain non-cash transactions:			
Accounts receivable	(9,808)	(19,023)	10,479
Inventories	(557)	(932)	(409)
Prepaid expenses and other current assets	(2,156)	5,195	5,268
Accounts payable	5,600	(6,467)	(3,466)
Employee compensation and benefits	(20,053)	7,247	(6,560)
Accrued expenses and other obligations	5,432	(8,102)	13,708
Net cash provided by operating activities	$ 34,199	$ 20,249	$ 45,964

Sale of Property

6.18

FLEETWOOD ENTERPRISES, INC. (APR)

(Amounts in thousands)	2004	2003	2002
Cash flows from operating activities:			
Net loss	$(22,261)	$(70,739)	$(161,928)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation expense	23,774	26,505	29,761
Amortization of financing costs	5,617	4,793	3,812
Impairment of goodwill	—	—	80,635
Other asset impairment charges	—	1,242	12,505
Gains on sales of property, plant and equipment	(4,607)	(5,777)	(140)
Non-cash charge for options and warrants issued to outside parties	—	—	1,469
Non-cash charge for interest on conversion of trust preferred securities	671	—	—
Issuance of stock in lieu of cash for interest on trust preferred securities	—	4,464	2,765
Changes in assets and liabilities:			
(Increase) decrease in receivables	(41,235)	2,444	(22,952)
(Increase) decrease in inventories	(22,289)	(22,516)	55,380
Decrease in income tax receivable	535	21,853	7,873
Decrease in deferred taxes	15,000	11,120	5,475
(Increase) decrease in cash value of company-owned life insurance	6,195	6,292	(167)
(Increase) decrease in other assets	(8,620)	(3,769)	4,080
Increase in accounts payable	19,914	444	3,052
Increase (decrease) in employee compensation and benefits	(8,507)	330	(13,022)
Increase (decrease) in product warranty reserve	(8,216)	(5,909)	8,228
Increase in other liabilities	13,514	16,930	17,771
Net cash provided by (used in) operating activities	$(30,515)	$(12,293)	$ 34,597

Sale of Assets Other Than Property

6.19

HUMANA INC. (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities			
Net income	$ 280,012	$ 228,934	$ 142,755
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	117,792	126,779	120,730
Restricted stock and other stock compensation	4,020	6,337	9,490
(Gain) loss on sale of property and equipment, net	(935)	298	3,168
(Gain) loss on sale of investment securities, net	(28,206)	(36,651)	10,077
Provision for deferred income taxes	53,608	32,251	49,561
Provision for doubtful accounts	6,433	7,416	5,990
Writedown of property and equipment	—	17,233	2,448
Changes in operating assets and liabilities excluding the effects of acquisitions:			
Receivables	(51,058)	(22,636)	(183,071)
Other assets	3,991	25,110	(2,464)
Medical and other expenses payable	78,791	130,025	55,745
Other liabilities	65,732	(107,432)	84,347
Unearned revenues	(190,759)	(2,686)	10,717
Other	8,388	8,162	11,915
Net cash provided by operating activities	$ 347,809	$ 413,140	$ 321,408

Provision for Bad Debt

6.20

TARGET CORPORATION (JAN)

(Millions)	2004	2003	2002
Operating activities			
Net earnings	$3,198	$1,809	$1,623
Earnings from and gain on disposal of discontinued operations, net of tax	1,313	190	247
Earnings from continuing operations	1,885	1,619	1,376
Reconciliation to cash flow:			
Depreciation and amortization	1,259	1,098	967
Deferred tax provision	233	208	208
Bad debt provision	451	476	391
Loss on disposal of fixed assets, net	59	41	54
Other non-cash items affecting earnings	133	67	179
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable originated at Target	(209)	(279)	(454)
Inventory	(853)	(579)	(370)
Other current assets	(37)	(196)	13
Other non-current assets	(147)	(166)	(136)
Accounts payable	823	721	545
Accrued liabilities	319	85	3
Income taxes payable	(78)	99	(80)
Other	(17)	19	29
Cash flow provided by operations	$3,821	$3,213	$2,725

Equity Earnings/(Loss)

6.21

ARCHER DANIELS MIDLAND COMPANY (JUN)

(In thousands)	2004	2003	2002
Operating activities			
Net earnings	$ 494,710	$ 451,145	$ 511,093
Adjustments to reconcile to net cash provided by operations			
Depreciation	685,613	643,615	566,576
Asset abandonments	50,576	13,221	82,927
Deferred income taxes	(67,505)	105,086	(4,972)
Amortization of long-term debt discount	4,245	5,111	47,494
(Gain) loss on marketable securities transactions	(23,968)	363	(36,296)
Equity in (earnings) of affiliates, net of dividends	(84,930)	(14,138)	(9,121)
Stock contributed to employee benefit plans	23,281	23,591	23,263
Other—net	(63,383)	125,316	103,777
Changes in operating assets and liabilities			
Segregated cash and investments	(316,423)	(134,434)	(134,317)
Receivables	(378,501)	(112,460)	(119,176)
Inventories	(950,792)	(200,392)	(72,508)
Other assets	(6,724)	(39,061)	(44,197)
Accounts payable and accrued expenses	667,140	202,213	388,609
Total operating activities	$ 33,339	$1,069,176	$1,303,152

Intangible Asset Amortization

6.22

THE MCGRAW-HILL COMPANIES, INC. (DEC)

(In thousands)	2004	2003	2002
Cash flow from operating activities			
Net income	$ 755,823	$ 687,650	$ 576,760
Dividend from Rock-McGraw, Inc.	—	103,500	—
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	92,268	83,953	89,589
Amortization of intangibles	32,470	33,739	38,789
Amortization of prepublication costs	267,975	285,487	280,393
Provision for losses on accounts receivable	7,796	29,839	33,024
Loss on sale of MMS International	—	—	14,534
Gain on sale of S&P ComStock	—	(86,953)	—
Loss on disposition of juvenile retail publishing business, primarily goodwill impairment	—	75,919	—
Gain on sale of Rock-McGraw, Inc.	—	(131,250)	—
Other	9,338	(12,468)	(9,618)
Change in assets and liabilities net of effect of acquisitions and dispositions:			
(Increase)/decrease in accounts receivable and inventory	(126,980)	77,055	61,623
(Increase)/decrease in prepaid and other current assets	(80,828)	18,927	7,185
Increase in accounts payable and accrued expenses	52,664	32,692	4,373
Increase/(decrease) in unearned revenue and other current liabilities	104,068	51,451	(56,149)
(Decrease)/increase in interest and income taxes currently payable	(106,800)	169,935	18,492
Net change in deferred income taxes	28,664	(50,017)	64,492
Net change in other assets and liabilities	27,014	12,886	18,921
Cash provided by operating activities	$1,063,472	$1,382,345	$1,142,391

Restructuring Charge

6.23

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	2004	2003	2002
Cash flows from operating activities			
Net income (loss)	$(30,218)	$(39,067)	$ 32,581
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	42,944	46,270	46,674
Asset impairments	48,476	15,910	—
Restructuring charges (reversals)	13,649	20,082	(1,837)
Gain on sale of discontinued operations	(21,370)	—	—
Pension and postretirement benefit expense	23,245	38,337	790
Loss (gain) on sale of assets	1,299	411	(1,999)
Unrealized loss on marketable securities	—	—	3,700
Amortization of unearned compensation—restricted stock	1,666	2,382	1,785
Deferred tax (benefit) expense	(18,706)	(26,265)	22,430
Other	460	353	1,391
Changes in operating assets and liabilities, net of effects from dispositions and acquisitions:			
Accounts and notes receivable	(2,454)	29,979	34,460
Inventories	(4,754)	10,422	14,319
Income taxes	1,584	16,778	9,170
Other assets	(2,880)	(1,564)	(548)
Restructuring spending	(11,702)	(19,691)	(11,032)
Accounts payable and accrued expenses	12,745	(9,352)	(23,545)
Pension and postretirement obligation	(14,890)	(25,438)	(24,956)
Other deferred liabilities	2,764	5,346	(199)
Net cash provided by operating activities	$ 41,858	$ 64,893	$103,184

Changes in Assets and Liabilities

6.24

FLUOR CORPORATION (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities			
Net earnings	$ 186,695	$ 157,450	$163,615
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:			
Depreciation of fixed assets	87,036	79,676	77,989
Amortization of intangibles	4,852	1,257	—
Restricted stock amortization	16,039	12,526	10,433
Cumulative effect of change in accounting principle	—	10,389	—
Deferred taxes	4,054	48,284	45,357
Stock option tax benefit	14,009	3,652	2,476
Retirement plan accrual (contribution), net	14,815	(620)	(79,500)
Unbilled fees receivable	(36,792)	(21,940)	(5,999)
Special provision, net of cash payments	—	—	(1,558)
Provisions for impairment of assets	—	14,817	31,145
Changes in operating assets and liabilities, excluding effects of business acquisitions/dispositions	(343,265)	(672,822)	(23,562)
Gain on sale of real estate and residual property interest	(12,545)	—	—
Insurance proceeds	3,832	84,055	35,411
Equity in earnings of investees	(1,317)	(114)	(13,186)
Other, net	(18,928)	(20,336)	(46,876)
Cash provided (utilized) by operating activities	$ (81,515)	$(303,726)	$195,745

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows (In Part)

Cash flows as shown in the Consolidated Statement of Cash Flows and changes in operating assets and liabilities shown below include the effects of discontinued operations on a consolidated basis, without separate identification and classification of discontinued operations.

The changes in operating assets and liabilities as shown in the Consolidated Statement of Cash Flows comprise:

(In thousands)	2004	2003	2002
(Increase) decrease in:			
Accounts and notes receivable	$(116,880)	$ (81,185)	$ 70,937
Contract work in progress	(249,596)	(394,475)	(49,361)
Inventories	(13,717)	(1,957)	36,666
Other current assets	4,114	(35,935)	(7,392)
Increase (decrease) in:			
Accounts payable	150,453	111,182	59,267
Advances from affiliate	(44,548)	(212,782)	(282,084)
Advance billings on contracts	(90,986)	(43,780)	100,419
Accrued liabilities	17,895	(13,890)	47,986
(Increase) in operating assets and liabilities	$(343,265)	$(672,822)	$ (23,562)

6.25

RUSSELL CORPORATION (DEC)

(In thousands)	2004	2003	2002
Operating activities			
Net income	$ 47,936	$ 43,039	$ 34,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	46,627	44,177	44,775
Amortization	1,395	759	286
Earnings of non-controlling interests	2,021	—	—
Debt retirement charge	—	—	20,097
Other	1,453	6,963	8,684
Changes in operating assets and liabilities:			
Trade accounts receivable	(8,664)	(17,600)	12,230
Inventories	(26,194)	(19,989)	56,407
Prepaid expenses and other current assets	1,164	(8,243)	2,110
Other assets	7,037	(6,478)	2.254
Accounts payable and accrued expenses	6,378	1,406	18,871
Income taxes	8,137	3,305	7,414
Pension and other deferred liabilities	(6,001)	10,617	(4,043)
Net cash provided by operating activities	$ 81,289	$ 57,956	$203,391

INTEREST AND INCOME TAX PAYMENTS

6.26

DELUXE CORPORATION (DEC)

(Dollars in thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 197,991	$ 192,472	$ 214,274
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations	657	—	—
Depreciation	27,330	22,773	23,953
Amortization of intangibles	66,526	37,309	34,252
Amortization of contract acquisition costs	34,528	25,586	15,161
Employee stock-based compensation expense	12,248	954	3,102
Deferred income taxes	(2,654)	(7,494)	11,104
Other non-cash items, net	12,719	15,214	10,128
Changes in assets and liabilities, net of effects of acquisition and discontinued operations:			
Trade accounts receivable	(15,295)	(2,883)	4,778
Inventories and supplies	3,980	1,482	1,976
Other current assets	(61)	1,487	(5,766)
Contract acquisition payments	(15,778)	(47,728)	(34,890)
Deferred advertising costs	2,748	(11,786)	4,670
Other non-current assets	(4,695)	(10,346)	(9,808)
Accounts payable	1,338	(10,095)	7,828
Accrued and other non-current liabilities	(13,991)	(25,478)	(23,623)
Net cash provided by operating activities of continuing operations	307,591	181,467	257,139
Cash flows from investing activities:			
Payments for acquisition, net of cash acquired	(624,859)	—	—
Increase in restricted cash	(517)	—	—
Purchases of capital assets	(43,817)	(22,034)	(40,708)
Other	(1,644)	(2,849)	(3,441)
Net cash used by investing activities of continuing operations	(670,837)	(24,883)	(44,149)
Cash flows from financing activities:			
Net borrowings (payments) of short-term debt	50,750	213,250	(150,000)
Proceeds from long-term debt, net of debt issuance costs	595,536	74,800	295,722
Payments on long-term debt	(167,050)	(1,743)	(1,723)
Settlement of interest rate lock agreements	(23,564)	—	(4,026)
Change in book overdrafts	(3,693)	(1,068)	(2,805)
Payments for common shares repurchased	(26,637)	(507,126)	(172,803)
Proceeds from issuing shares under employee plans	18,923	23,869	30,869
Cash dividends paid to shareholders	(74,302)	(80,453)	(92,940)
Net cash provided (used) by financing activities of continuing operations	369,963	(278,471)	(97,706)
Effect of exchange rate changes on cash	1,155	—	—
Net cash provided by discontinued operations	4,652	—	—
Net increase (decrease) in cash and cash equivalents	12,524	(121,887)	115,284
Cash and cash equivalents: beginning of year	2,968	124,855	9,571
Cash and cash equivalents: end of year	$ 15,492	$ 2,968	$ 124,855

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Supplementary Balance Sheet and Cash Flow Information

Interest and Income Taxes Paid

Cash payments for interest and income taxes for continuing operations were as follows for the years ended December 31 (dollars in thousands):

	2004	2003	2002
Interest paid	$ 28,395	$ 19,180	$ 4,162
Income taxes paid	108,435	110,508	116,500

6.27

SYSCO CORPORATION (JUN)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Net earnings	$ 907,214	$ 778,288	$ 679,787
Add non-cash items:			
Depreciation and amortization	283,595	273,142	278,251
Deferred tax provision	608,152	481,330	263,492
Provision for losses on receivables	27,377	27,133	25,904
Additional investment in certain assets and liabilities, net of effect of businesses acquired:			
(Increase) in receivables	(177,058)	(218,150)	(32,360)
(Increase) in inventories	(162,502)	(69,959)	(17,804)
(Increase) in prepaid expenses	(2,183)	(9,509)	(680)
Increase (decrease) in accounts payable	95,874	237,360	(357)
Increase (decrease) in accrued expenses and other long-term liabilities	26,488	(85,294)	(23,403)
(Decrease) in accrued income taxes	(392,197)	(33,121)	(81,736)
(Increase) in other assets	(25,238)	(8,380)	(6,114)
Net cash provided by operating activities	1,189,522	1,372,840	1,084,980
Cash flows from investing activities:			
Additions to plant and equipment	(530,086)	(435,637)	(416,393)
Proceeds from sales of plant and equipment	15,851	14,629	20,711
Acquisition of businesses, net of cash acquired	(79,247)	(209,010)	(234,618)
Increase in restricted cash	(90,329)	(51,807)	(32,000)
Net cash used for investing activities	(683,811)	(681,825)	(662,300)
Cash flows from financing activities:			
Bank and commercial paper (repayments) borrowings	(77,849)	85,224	(143,593)
Other debt borrowings (repayments)	185,087	(12,098)	384,114
Cash from termination of interest rate swap	1,305	15,359	—
Common stock reissued from treasury	167,652	101,312	86,328
Treasury stock purchases	(608,506)	(478,471)	(473,558)
Dividends paid	(309,540)	(261,854)	(213,275)
Net cash used for financing activities	(641,851)	(550,528)	(359,984)
Effect of exchange rates on cash	(1,601)	(1,479)	—
Net (decrease) increase in cash	(137,741)	139,008	62,696
Cash at beginning of year	337,447	198,439	135,743
Cash at end of year	$ 199,706	$ 337,447	$ 198,437
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 68,481	$ 69,103	$ 61,354
Income taxes	344,414	28,747	239,792

6.28

TEXAS INSTRUMENTS INCORPORATED (DEC)

(Millions of dollars)	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$ 1,861	$ 1,198	$ (344)
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	1,479	1,429	1,574
Amortization of acquisition-related costs	70	99	115
Purchased in-process research and development	—	23	1
Write-downs of equity investments	13	42	808
Gains on sale of equity and debt investments	(12)	(213)	(7)
Deferred income taxes	68	75	13
(Increase) decrease in:			
Accounts receivable	(238)	(197)	(114)
Inventories	(272)	(194)	(39)
Prepaid expenses and other current assets	134	(183)	191
Accounts payable and accrued expenses	(71)	264	(81)
Income taxes payable	59	118	(5)
Accrued profit sharing and retirement	235	11	(27)
Decrease in noncurrent accrued retirement costs	(248)	(132)	(45)
Other	68	(189)	(48)
Net cash provided by operating activities	3,146	2,151	1,992
Cash flows from investing activities:			
Additions to property, plant and equipment	(1,298)	(800)	(802)
Purchases of cash investments	(3,674)	(4,402)	(3,146)
Sales and maturities of cash investments	3,809	3,732	2,890
Purchases of equity investments	(22)	(22)	(26)
Sales of equity and debt investments	32	778	44
Acquisition of businesses, net of cash acquired	(8)	(128)	(69)
Net cash used in investing activities	(1,161)	(842)	(1,109)
Cash flows from financing activities:			
Additions to loans payable	—	—	9
Payments on loans payable	(6)	(8)	(16)
Payments on long-term debt	(429)	(418)	(22)
Dividends paid on common stock	(154)	(147)	(147)
Sales and other common stock transactions	192	157	167
Common stock repurchases	(753)	(284)	(370)
Decrease in restricted cash	—	261	—
Net cash used in financing activities	(1,150)	(439)	(379)
Effect of exchange rate changes on cash	15	(1)	14
Net increase in cash and cash equivalents	850	869	518
Cash and cash equivalents at beginning of year	1,818	949	431
Cash and cash equivalents at end of year	$ 2,668	$ 1,818	$ 949

NOTES TO FINANCIAL STATEMENTS

8 (In Part): Debt and Lines of Credit

Interest incurred on loans in 2004, 2003 and 2002 was $24 million, $41 million and $60 million. Of these amounts, $3 million in 2004, $2 million in 2003 and $3 million in 2002 were capitalized as a component of capital asset construction costs. Interest paid on loans (net of amounts capitalized) was $21 million in 2004, $39 million in 2003 and $57 million in 2002.

18 (In Part): Income Taxes

Income taxes paid net of (refunds) were $261 million, $243 million and $(42) million for 2004, 2003 and 2002.

CASH FLOWS FROM INVESTING ACTIVITIES

6.29 Paragraph 15–17 of *SFAS No. 95* define those transactions and events which constitute Investing Activity cash receipts and payments. With the exception of certain transactions described in paragraphs 12 and 13 of *SFAS No. 95* and paragraph 7 of SFAS No. 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Activities*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from Investing Activities follow.

Property Acquisitions/Disposals

6.30

AMERADA HESS CORPORATION (DEC)

(Millions of dollars)	2004	2003	2002
Cash flows from investing activities			
Capital expenditures			
Exploration and production	$(1,434)	$(1,286)	$(1,404)
Refining and marketing	(87)	(72)	(130)
Total capital expenditure	(1,521)	(1,358)	(1,534)
Proceeds from asset sales	57	545	412
Payment received on notes receivable	90	61	48
Other	3	(25)	(22)
Net cash used in investing activities	$(1,371)	$ (777)	$(1,096)

6.31

UST INC. (DEC)

(In thousands)	2004	2003	2002
Investing activities			
Purchases of property, plant and equipment	$(70,326)	$(48,944)	$(62,714)
Dispositions of property, plant and equipment	9,902	2,273	3,147
Net cash used in investing activities	$(60,424)	$(46,671)	$(59,567)

Investments

6.32

CIGNA CORPORATION (DEC)

(In millions)	2004	2003	2002
Cash flows from investing activities			
Proceeds from investments sold:			
Fixed maturities	$ 3,095	$ 7,984	$ 4,348
Equity securities	154	292	123
Mortgage loans	386	886	1,324
Other (primarily short-term investments)	8,620	7,921	5,459
Investment maturities and repayments:			
Fixed maturities	766	2,210	2,059
Mortgage loans	651	1,310	928
Investments purchased:			
Fixed maturities	(4,899)	(11,271)	(9,788)
Equity securities	(14)	(55)	(127)
Mortgage loans	(1,032)	(2,067)	(1,056)
Other (primarily short-term investments)	(8,568)	(8,130)	(4,418)
Proceeds on sales of businesses, net	2,121	231	—
Property and equipment, net	(38)	(107)	(303)
Other, net	(24)	—	(35)
Net cash provided by (used in) investing activities of continuing operations	$ 1,218	$ (796)	$(1,486)

6.33

KLA-TENCOR CORPORATION (JUN)

(In thousands)	2004	2003	2002
Cash flows from investing activities:			
Acquisitions, net of cash received	$ —	$ —	$ (4,035)
Purchase of property, plant and equipment	(55,528)	(133,766)	(68,658)
Proceeds from sale of property, plant and equipment	—	3,197	—
Purchase of available-for-sale securities	(1,736,822)	(1,288,151)	(2,127,460)
Proceeds from sale of available-for-sale securities	1,354,651	1,240,437	1,619,111
Proceeds from maturity of available-for-sale securities	163,823	79,769	218,706
Net cash used in investing activities	$ (273,876)	$ (98,514)	$ (362,336)

Business Combinations

6.34

AMETEK, INC. (DEC)

(In thousands)	2004	2003	2002
Cash provided by (used for) investing activities:			
Additions to property, plant and equipment	$ (21,025)	$ (21,326)	$(17,374)
Purchase of businesses	(143,535)	(163,909)	—
Other	10,098	4,232	(2,355)
Total investing activities	$(154,462)	$(181,003)	$(19,729)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Acquisitions

In 2004, the Company made two acquisitions. In June 2004, the Company acquired Taylor Hobson Holdings Limited (Taylor Hobson) for approximately 51.0 million British pounds, or $93.8 million in cash, net of cash received. Taylor Hobson is a leading manufacturer of ultraprecise measurement instrumentation for a variety of markets, including optics, semiconductors, hard disk drives and nanotechnology research. Taylor Hobson is a part of the Company's Electronic Instruments Group. In July 2004, the Company acquired substantially all of the assets of Hughes-Treitler Mfg. Corp. (Hughes-Treitler) for approximately $48.0 million in cash. Hughes-Treitler is a supplier of heat exchangers and thermal management subsystems for the aerospace and defense markets. Hughes-Treitler is a part of the Company's Electromechanical Group. The aggregate purchase price paid for the 2004 acquisitions is subject to adjustment upon finalization of the value of the net assets acquired.

The operating results of the above acquisitions are included in the Company's consolidated results from their respective dates of acquisition.

The acquisitions have been accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations." The following table presents the preliminary allocations of the aggregate purchase price for the 2004 acquisition based on their estimated fair values:

(In millions)	
Net working capital	$ 16.0
Property, plant and equipment	7.9
Goodwill	95.1
Other assets	37.5
Other long-term liabilities	(13.0)
Total net assets	$143.5

The amount allocated to goodwill is reflective of the benefit the Company expects to realize from expanding its measurement instruments capabilities into ultraprecise applications through Taylor Hobson and its thermal management systems offerings for the aerospace market through Hughes-Treitler.

The $37.5 million in other assets was assigned to intangibles, other than goodwill, primarily technology and patents with estimated lives up to 20 years.

The Company is in the process of completing third party valuations of certain tangible and intangible assets acquired with the new businesses. Therefore, the allocation of purchase price to these acquisitions is subject to revision.

In 2003, the Company made three acquisitions. In January 2003, the Company acquired Airtechnology Holdings Limited (Airtechnology) from Candover Partners Limited, for approximately 50 million British pounds, or about $80 million in cash. Airtechnology is a supplier of motors, fans and environmental control systems for the aerospace and defense markets. Airtechnology is a part of the Company's Electromechanical Group. In February 2003, the Company acquired Solidstate Controls, Inc. (SCI) from Marmon Industrial Companies LLC for approximately $34 million in cash. SCI is a leading supplier of uninterruptible power supply systems for the process and power generation industries. SCI is a part of the Company's Electronic Instruments Group. In August 2003, the Company acquired Chandler Instruments Company, LLC. (Chandler Instruments) for approximately $49 million in cash. Chandler Instruments is a leading manufacturer of high-quality measurement instrumentation for the oil and gas industry. Chandler Instruments is a part of the Company's Electronic Instruments Group.

Had the acquisitions of Taylor Hobson and Hughes-Treitler been made at the beginning of 2004, unaudited pro forma net sales, net income and diluted earnings per share for the year ended December 31, 2004 would not have been materially different than the amounts reported. Had these acquisitions, along with the 2003 Chandler acquisition, been made at the beginning of 2003, unaudited pro forma net sales for the year ended December 31, 2003 would have been $1,194.7 million, respectively. Unaudited pro forma net income and diluted earnings per share for 2003 would not have been materially different than the amounts reported.

The following table provides unaudited pro forma results of operations for the year ended December 31, 2002, as if the 2003 acquisitions had been made as of January 1, 2002.

(In millions, except per share)	Unaudited Pro Forma Results of Operations Year Ended December 31, 2002
Net sales	$1,150.2
Net income	$ 87.6
Diluted earning per share	$ 1.30

The unaudited pro forma amounts are not necessarily indicative of the results that would have occurred if the acquisitions had been completed on the date indicated.

Sale of Discontinued Operation

6.35

SILICON GRAPHICS, INC. (JUN)

(In thousands)	2004	2003	2002
Cash flows from investing activities of continuing operations:			
Marketable investments:			
Purchases	$ (1,608)	$ (449)	$ (2,125)
Maturities	38	4,886	225
Purchases of restricted investments	(87,706)	(194,707)	(448,984)
Proceeds from the maturities of restricted investments	100,165	203,703	481,147
Proceeds from the sale of interest in SGI Japan	—	—	90,705
Proceeds from the sale of corporate real estate and other assets	10,615	7,653	29,400
Proceeds from the disposition of discontinued operations	58,401	—	—
Capital expenditures	(17,866)	(17,782)	(28,158)
Increase in other assets	(9,138)	(20,416)	(7,273)
Net cash provided by (used in) investing activities of continuing operations	$ 52,901	$ (17,112)	$ 114,937

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Discontinued Operations

On April 14, 2004, we entered into a definitive agreement for the sale of our Alias application software business ("Alias") to Accel-KKR, a technology-focused private equity investment firm. The transaction closed on June 15, 2004 and we received $58.4 million in gross proceeds, recorded a net gain of $50.5 million and transferred approximately 430 employees to Accel-KKR. As a result of this transaction, we have presented the operating results of Alias as a discontinued operation for all periods presented.

The financial results of Alias included in discontinued operations, are as follows:

(In thousands)	2004	2003	2002
Revenue	$66,425	$65,143	$64,112
Income (loss) from discontinued operations before income taxes	$ 4,975	$ 5,900	$ (153)
Income tax provision (benefit)	1,000	401	(3,266)
Net income from discontinued operations	3,975	5,499	3,113
Gain on disposition of discontinued operations before income taxes	52,010	—	—
Income tax provision	1,509	—	—
Net gain on disposition of discontinued operations	50,501	—	—
Net income from discontinued operations	$54,476	$ 5,499	$ 3,113

Total assets sold to and liabilities assumed by Accel-KKR on June 15, 2004 as well as total assets and liabilities of Alias included in discontinued operations at June 27, 2003, are as follows:

(In thousands)	2004	2003
Cash and cash equivalents	$ 9,468	$ 4,808
Accounts receivable, net	12,133	16,236
Other current assets	2,198	3,652
Property and equipment, net	3,711	4,578
Other assets	658	628
Total assets	$28,168	$29,902
Short-term deferred revenue	$15,035	$14,443
Other liabilities	8,544	8,459
Total liabilities	$23,579	$22,902

Notes Receivable

6.36

FLOWERS FOODS, INC. (DEC)

(Amounts in thousands)	2004	2003	2002
Cash flows provided by (disbursed for) investing activities:			
Purchase of property, plant and equipment	$(46,029)	$ (43,618)	$(48,811)
(Increase) decrease of notes receivable, net	(798)	(1,937)	1,231
Acquisition of businesses	(8,599)	(14,534)	(1,023)
Consolidation of variable interest entity	1,527	—	—
Proceeds from the sale of Mrs. Smith's Bakeries frozen dessert business	—	231,551	—
Other	93	1,657	1,742
Net cash (disbursed for) provided by investing activities	$(53,806)	$173,119	$(46,861)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Notes Receivable

Between September 1996 and March 2001, the independent distributor notes, entered into in connection with the purchase of the distributors' territories (the "distributor notes"), were made directly between the distributor and a third party financial institution. In March 2001, the company purchased the aggregate outstanding distributor note balance of $77.6 million from the third party financial institution. The purchase price of the distributor note balance represented the notional and fair value of the notes at the purchase date. Accordingly, beginning at that time, the company has provided direct financing to independent distributors for the purchase of the distributors' territories and records the notes receivable on the Consolidated Balance Sheet. The territories are financed over ten years bearing an interest rate of 12%. During fiscal 2004, fiscal 2003 and fiscal 2002, $9.5 million, $9.9 million and $9.5 million, respectively, were recorded as interest income relating to the distributor notes. The distributor notes are collateralized by the independent distributors' territories. At January 1, 2005 and January 3, 2004, the outstanding balance of the distributor notes was $82.1 million and $81.3 million, respectively, of which the current portion of $8.0 million and $8.0 million, respectively, is recorded in accounts and notes receivable, net. At January 1, 2005 and January 3, 2004, the company has evaluated the collectibility of the distributor notes and determined that a reverse is not necessary. Payments on these distributor notes are collected by the company weekly in the distributor settlement process.

Capitalized Software

6.37

BMC SOFTWARE, INC. (MAR)

(In millions)	2002	2003	2004
Cash flows from investing activities:			
Debtor-in-possession financing provided to Peregrine Systems, Inc.	$ —	$ (53.8)	$ —
Proceeds from debtor-in-possession financing provided to Peregrine Systems, Inc.	—	53.8	—
Cash paid for technology acquisitions and other investments, net of cash acquired	(19.9)	(408.2)	(61.0)
Adjustment of cash paid for Remedy acquisition	—	—	7.2
Return of capital for cost-basis investments	3.2	0.7	0.1
Proceeds from sale of technology	—	—	2.0
Purchases of marketable securities	(134.6)	(124.3)	(307.3)
Maturities of/proceeds from sales of marketable securities	204.5	394.1	214.3
Purchases of property and equipment	(64.3)	(23.6)	(50.4)
Proceeds from sales of property and equipment	6.7	—	—
Capitalization of software development costs and related assets	(104.2)	(88.2)	(53.3)
Net cash used in investing activities	$(108.6)	$(249.5)	$(248.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

f (In Part): Long Lived Assets

Software Development Costs and Related Assets (In Part)

Costs of internally developed software for resale 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. Purchased software and related assets are recorded at cost. The capitalized software costs are amortized over the products' estimated economic lives, which historically have typically been five years, beginning upon the declaration of the underlying products are generally available for sale. As discussed below, the Company revised the estimated economic lives for certain software products as of January 1, 2003, such that the capitalized costs for the majority of products will be amortized over an estimated life of three years. 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 net effect of software development cost capitalization and amortization is included in research, development and support expenses in the accompanying consolidated statements of operations and comprehensive income (loss). The following table summarizes the amounts capitalized and amortized during the years ended March 31, 2002, 2003 and 2004. Amortization for these periods includes amounts accelerated for certain software products that were not expected to generate sufficient future revenues to realize the carrying value of the assets.

(In millions)	2002	2003	2004
Software development and purchased software costs capitalized	$(104.2)	$(88.2)	$(53.3)
Total amortization	115.7	107.6	107.5
Net increase (decrease) in research, development and support expenses	$ 11.5	$ 19.4	$ 54.2
Accelerated amortization included in total amortization above	$ 57.2	$ 47.4	$ 19.1

As a result of the changes in market conditions and research and development headcount reductions during the years ended March 31, 2002 and 2003, the Company focused more on its core and high-potential growth businesses. As part of this effort, 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 these balances off. This was the primary reason for the increase in accelerated amortization in fiscal 2002 and 2003. 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 will 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.

Restricted Cash

6.38

EXXON MOBIL CORPORATION (DEC)

(Millions of dollars)	2004	2003	2002
Cash flows from investing activities			
Additions to property, plant and equipment	$(11,986)	$(12,859)	$(11,437)
Sales of subsidiaries, investments and property, plant and equipment	2,754	2,290	2,793
Increase in restricted cash and cash equivalents	(4,604)	—	—
Additional investments and advances	(2,287)	(809)	(2,012)
Collection of advances	1,213	536	898
Net cash used in investing activities	$(14,910)	$(10,842)	$ (9,758)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Miscellaneous Financial Information

Restricted cash and cash equivalents were $4,604 million at December 31, 2004, attributable to cash and short-term, high-quality securities the Corporation pledged as collateral to the issuer of a $4.5 billion litigation-related bond. The Corporation posted this bond to stay execution of the judgment pending appeal in the case of *Exxon Corporation v. State of Alabama, et al.* Under the terms of the pledge agreement, the Corporation is entitled to receive the income generated from the cash and securities and to make investment decision, but is restricted from using the pledged cash and securities for any other purpose until such time the bond is canceled.

16 (In Part): Litigation and Other Contingencies

Litigation (In Part)

On December 19, 2000, a jury in the 15th Judicial Circuit Court of Montgomery County, Alabama, returned a verdict against the Corporation in a dispute over royalties in the amount of $88 million in compensatory damages and $3.4 billion in punitive damages in the case of *Exxon Corporation v. State of Alabama, et al.* The verdict was upheld by the trial court on May 4, 2001. On December 20, 2002, the Alabama Supreme Court vacated the $3.5 billion jury verdict. The case was retried and on November 14, 2003, a state district court jury in Montgomery, Alabama, returned a verdict against Exxon Mobil Corporation. The verdict included $63.5 million in compensatory damages and $11.8 billion in punitive damages. On March 29, 2004, the district court judge reduced the amount of punitive damages of $3.5 billion. ExxonMobil believes the judgment is not justified by the evidence, the any punitive damage award is not justified by either the facts or the law, and that the amount of the award is grossly excessive and unconstitutional. ExxonMobil has appealed the decision. Management believes that the likelihood of the judgment being upheld is remote. While it is reasonably possible that a liability may have been incurred by ExxonMobil from this dispute over royalties, it is not possible to predict the ultimate outcome or to reasonably estimate any such potential liability. On May 4, 2004, the Corporation posted a $4.5 billion supersedeas bond as required by Alabama law to stay execution of the judgment pending appeal. The Corporation has pledged to the issuer of the bond collateral consisting of cash and short-term, high-quality securities with an aggregate value of approximately $4.6 billion. This collateral is reported as restricted cash and cash equivalents on the Consolidated Balance Sheet. Under the terms of the pledge agreement, the Corporation is entitled to receive the income generated from the cash and securities and to make investment decisions, but is restricted from using the pledged cash and securities for any other purpose until such time the bond is canceled.

Life Insurance Policies

6.39

W. R. GRACE & CO. (DEC)

(In millions)	2004	2003	2002
Investing activities			
Capital expenditures	$ (62.9)	$ (86.4)	$ (91.1)
Businesses acquired, net of cash acquired	(66.3)	(26.9)	(28.5)
Investment in life insurance policies	(14.0)	(11.6)	(16.4)
Proceeds from life insurance policies	15.8	11.9	19.4
Proceeds from sales of investments and disposals of assets	1.8	3.9	5.9
Net cash used for investing activities	$(125.6)	$(109.1)	$(110.7)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Life Insurance

Grace is the beneficiary of life insurance policies on certain current and former employees with a net cash surrender value of $96.0 million and $90.8 million at December 31, 2004 and 2003, respectively. The policies were acquired to fund various employee benefit programs and other long-term liabilities and are structured to provide cash flow (primarily tax-free) over an extended number of years.

The following tables summarize activity in these policies for 2004, 2003 and 2002, and the components of net cash value at December 31, 2004 and 2003:

LIFE INSURANCE—ACTIVITY SUMMARY

(In millions)	2004	2003	2002
Earnings on policy assets	$ 32.4	$ 38.7	$ 39.4
Interest on policy loans	(29.4)	(33.1)	(34.7)
Premiums	2.4	2.4	2.4
Policy loan repayments	4.0	3.1	5.1
Net investing activity	(4.2)	(2.7)	(5.4)
Change in net cash value	$ 5.2	$ 8.4	$ 6.8
Tax-free proceeds received	$ 15.8	$ 11.9	$ 19.4

COMPONENTS OF NET CASH VALUE

(In millions)	2004	2003
Gross cash value	$ 484.2	$ 478.5
Principal—policy loans	(368.2)	(365.3)
Accrued interest—policy loans	(20.0)	(22.4)
Net cash value	$ 96.0	$ 90.8
Insurance benefits in force	$2,191.3	$2,213.1

Grace's financial statements display income statement activity and balance sheet amounts on a net basis, reflecting the contractual interdependency of policy assets and liabilities. See Note 14 for a discussion of a settlement agreement with the Internal Revenue Service ("IRS") with respect to tax contingencies regarding most of these life insurance policies.

In January 2005, Grace surrendered and terminated most of these life insurance policies and received approximately $16 million of net cash value from the termination. As a result of the termination, gross cash value of the policies was reduced by approximately $381 million and policy loans of approximately $365 million were satisfied. Grace's insurance benefits in force was reduced by approximately $2 billion to approximately $191 million.

Revenue Sharing Program

6.40

BARNES GROUP INC. (DEC)

(Dollars in thousands)	2004	2003	2002
Investing activities:			
Proceeds from disposition of property, plant and equipment	$ 4,970	$ 3,220	$ 3,592
Capital expenditures	(28,509)	(18,397)	(19,367)
Business acquisitions, net of cash acquired	(17,720)	(61,142)	(31,189)
Revenue sharing program payments	(32,000)	(17,500)	—
Other	(2,305)	(1,670)	(1,003)
Net cash used by investing activities	$(75,564)	$(95,489)	$(47,967)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All dollar amounts included in the notes are stated in thousands)

1 (In Part): Summary of Significant Accounting Policies

Revenue Sharing Programs

The Company, through its Barnes Aerospace business, participates in aftermarket RSPs under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program. As consideration, the Company pays participation fees, which are recorded as long-lived intangible assets, and are recognized as a reduction to sales over the life of the program. The recoverability of the intangible asset is subject to significant estimates about future revenues related to the program's aftermarket parts. Management updates revenue projections periodically, which includes comparing actual experience against projected revenue and obtaining industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions. A shortfall in future revenues may indicate an impairment of the intangible asset. The Company evaluates the remaining useful life of this asset to determine whether events and circumstances warrant a revision to the remaining period of amortization. The intangible asset is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. See Note 5.

5 (In Part): Goodwill and Other Intangible Assets

Other Intangible Assets

Other intangible assets at December 31 consisted of:

		2004		2003	
	Range of Life-Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue sharing programs	Up to 30	$ 98,500	$ (633)	$34,500	$ (48)
Customer lists/relationships	10–18	12,260	(2,199)	11,500	(1,037)
Patents, trademarks/trade names	5–30	11,128	(2,078)	11,128	(1,382)
Other	4.5–10	1,750	(416)	600	(295)
		123,638	(5,326)	57,728	(2,762)
Foreign currency translation		2,046	—	1,830	—
Unamortized intangible pension asset		5,089	—	5,127	—
Other intangible assets		$130,773	$(5,326)	$64,685	$(2,762)

Amortization of intangible assets for the year ended December 31, 2004 was $2,564. In each of the years 2005 through 2009, the estimated aggregated amortization expenses will be approximately $3,400.

During 2003 and 2004, the Company entered into multiple aftermarket RSP agreements with a major aerospace customer under which the Company is the sole supplier of certain aftermarket parts. As consideration, the Company agreed to pay participation fees to the customer. The Company has recorded the participation fees as long-lived intangible assets which will be recognized as a reduction of sales over the life of the related aircraft engine program. In 2003, the Company entered into the first and second RSP agreements and agreed to pay participation fees of $34,500, of which $17,500 was paid in 2003, $15,000 was paid in 2004 and $2,000 will be paid in 2005. During 2004, the Company entered into three additional agreements and agreed to pay participation fees aggregating $64,000, of which $17,000 was paid in 2004, and the remaining $47,000 will be paid in 2005.

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

CITIZENS COMMUNICATIONS COMPANY (DEC)

($ in thousands)	2004	2003	2002
Cash flows from financing activities:			
Repayment of customer advances for construction and contributions in aid of construction	$ (2,089)	$ (10,030)	$ (4,895)
Long-term debt borrowings	700,000	—	—
Debt issuance costs	(15,502)	—	—
Long-term debt payments	(1,214,021)	(653,462)	(1,062,169)
(Premium) discount to retire debt	(66,480)	(10,851)	5,550
Issuance of common stock	544,562	13,209	14,943
Dividends paid	(832,768)	—	—
Net cash used by financing activities	$ (886,298)	$(661,134)	$(1,046,571)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Recent Accounting Literature and Changes in Accounting Principles

Debt Retirement

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the requirement to aggregate gains and losses from extinguishment of debt and, if material, classified as an extraordinary item, net of related income tax effect. The statement requires gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria in Accounting Principles Board 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" which provides guidance for distinguishing transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. We adopted SFAS No. 145 in the second quarter of 2002.

For the year ended December 31, 2004 and 2003, we recognized $66,480,000 and $10,851,000, respectively, of losses on early retirement of debt. For the year ended December 31, 2002, we recognized $5,550,000 of gains from early debt retirement. In addition, for the year ended December 31, 2002, we recognized a $12,800,000 loss due to a tender offer related to certain debt securities.

11 (In Part): Long-Term Debt

The activity in our long-term debt from December 31, 2003 to December 31, 2004 is summarized as follows:

		Twelve Months Ended					
($ in thousands)	December 31, 2003	Borrowings	Payments***	Interest Rate Swap	Reclassification	December 31, 2004	Interest Rate* at December 31, 2004
Rural utilities service loan contracts	$ 30,010	$ —	$ (902)	$ —	$ —	$ 29,108	6.120%
Senior unsecured debt	4,167,123	700,000	(780,955)	(6,135)	51,770	4,131,803	7.912%
EPPICS** (reclassified as a result of adopting FIN 46R)	—	—	—	—	63,765	63,765	5.000%
Equity units	460,000	—	(408,230)	—	(51,770)	—	—
ELI notes	5,975	—	(5,975)	—	—	—	—
ELI capital leases	10,061	—	(5,640)	—	—	4,421	10.363%
Industrial development revenue bonds	70,440	—	(12,300)	—	—	58,140	5.559%
Other	22	—	(19)	—	—	3	12.990%
Total long term debt	$4,743,631	$700,000	$(1,214,021)	$(6,135)	$ 63,765	$4,287,240	
Less: Debt discount	—					(13,859)	
Less: Current portion	(88,002)					(6,383)	
Less: Equity units	(460,000)					—	
	$4,195,629					$4,266,998	

* Interest rate includes amortization of debt issuance expenses, debt premiums or discounts. The interest 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.

*** Includes purchases on the open market.

On January 15, 2004, we repaid at maturity the remaining outstanding $80,955,000 of our 7.45% debentures.

On January 15, 2004, we redeemed at 101% the remaining outstanding $12,300,000 of our Hawaii Special Purpose Revenue Bonds, Series 1993A and Series 1993B.

On May 17, 2004, we repaid at maturity the remaining outstanding $5,975,000 of Electric Lightwave, LLC's 6.05% Notes. These Notes had been guaranteed by Citizens.

On July 15, 2004, we renegotiated and prepaid with $4,954,000 of cash the entire remaining $5,524,000 Electric Lightwave capital lease obligation to a third party.

On July 30, 2004, we purchased $300,000,000 of the 6.75% notes that were a component of our equity units at 105.075% of par, plus accrued interest, at a premium of approximately $15,225,000 recorded in investment and other income (loss), net.

During August and September 2004, we repurchased through a series of transactions an additional $108,230,000 of the 6.75% notes due 2006 at a weighted average price of 104.486% of par, plus accrued interest, at a premium of approximately $4,855,000 recorded in investment and other income (loss), net.

On November 8, 2004, we issued an aggregate $700,000,000 principal amount of 6.25% senior notes due January 15, 2013 through a registered underwritten public offering. Proceeds from the sale were used to redeem our outstanding $700,000,000 of 8.50% Notes due 2006, which is discussed below.

On November 12, 2004, we called for redemption on December 13, 2004 the entire $700,000,000 of our 8.50% notes due 2006 at a price of 107.182% of the principal amount called, plus accrued interest, at a premium of approximately $50,300,000.

As of December 31, 2004, EPPICS representing a total principal amount of $147,991,000 had been converted into 11,622,749 shares of Citizens common stock.

Total future minimum cash payment commitments under ELI's long-term capital leases amounted to $10,017,000 as of December 31, 2004.

The total outstanding principal amounts of industrial development revenue bonds were $58,140,000 and $70,440,000 at December 31, 2004 and 2003, respectively. The earliest maturity date for these bonds is in August 2015. Holders of certain industrial development revenue bonds may tender such bonds to us at par prior to maturity. The next tender date is August 1, 2007 for $30,350,000 principal amount of bonds. We expect to retire all such bonds that are tendered.

As of December 31, 2004 we had available lines of credit with financial institutions in the aggregate amount of $250,000,000 with a maturity date of October 29, 2009. Associated facility fees vary depending on our leverage ratio and were 0.375% as of December 31, 2004. During the term of the credit facility we may borrow, repay and reborrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments. There are no outstanding borrowings under the facility.

During the twelve months ended December 31, 2003, we executed a series of purchases in the open market of our outstanding debt securities. The aggregate principal amount of debt securities purchased was $94,895,000 and they generated a pre-tax loss on the early extinguishment of debt at a premium of approximately $3,117,000 recorded in other income (loss), net.

During December 2002, we completed a tender offer with respect to our 6.80% debentures due 2026 (puttable at par in 2003) and ELI's 6.05% guaranteed notes due 2004. As a result of the tender, $82,286,000 and $259,389,000, respectively, of these securities were purchased and retired at a pretax cost of $12,800,000 (recorded in other income (loss), net) in excess of the principal amount of the securities purchased.

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.

6.43

JONES APPAREL GROUP, INC. (DEC)

(In millions)	2004	2003	2002
Cash flows from financing activities:			
Issuance of 4.25% senior notes, net of discount and debt issuance costs	$ 248.1	$ —	$ —
Issuance of 5.125% senior notes, net of discount and debt issuance costs	248.1	—	—
Issuance of 6.125% senior notes, net of discount and debt issuance costs	247.3	—	—
Redemption of zero coupon convertible senior notes	(446.6)	—	—
Redemption at maturity of 7.50% senior notes	(175.0)	—	—
Redemption of Barneys 9% senior secured notes, including premiums and fees	(112.7)	—	—
Net borrowings (payments) under credit facilities	69.2	—	(0.8)
Repurchase of Nine West Group senior notes	—	—	(0.1)
Refinancing of acquired debt	—	—	(126.9)
Purchases of treasury stock	(201.5)	(102.1)	(129.2)
Proceeds from exercise of employee stock options	35.5	20.5	118.4
Dividends paid	(44.8)	(20.2)	—
Proceeds from termination of interest rate hedges	0.2	—	21.6
Repayment of long-term debt	—	(7.4)	(11.2)
Principal payments on capital leases	(5.9)	(5.5)	(12.9)
Net cash used in financing activities	$(138.1)	$(114.7)	$(141.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt

Long-term debt consists of the following:

(In millions)	2004	2003
7.50% senior notes due 2004, net of unamortized discount of $0.1	$ —	$174.9
8.375% Series B senior notes due 2005, net of unamortized discount of $0.0 and $0.1	129.6	129.5
7.875% senior notes due 2006, net of unamortized discount of $0.5 and $0.8	224.5	224.2
9% senior secured notes due 2008, net of unamortized discount of $0.5	3.3	—
4.250% senior notes due 2009, net of unamortized discount of $0.2	249.8	—
5.125% senior notes due 2014, net of unamortized discount of $0.2	249.8	—
3.50% zero coupon convertible senior notes due 2021, net of unamortized discount of $7.7	—	437.7
6.125% senior notes due 2014, net of unamortized discount of $0.4	249.6	—
	1,106.6	966.3
Less current portion	129.6	174.9
	$ 977.0	$791.4

Long-term debt maturities for each of the next five years are \$129.6 million in 2005, \$225.0 million in 2006, \$3.8 million in 2008 and \$250.0 million in 2009. All of our notes contain certain covenants, including, among others, restrictions on liens, sale-leaseback transactions and additional secured debt, and pay interest semiannually. The weighted-average interest rate of our long-term debt was 6.1% at December 31, 2004.

In November 2004, we issued \$250.0 million of 4.250% senior notes due 2009, \$250.0 million of 5.125% senior notes due 2014 and \$250.0 million of 6.125% senior notes due 2034. Net proceeds of the offering were \$743.5 million, which were used to fund the acquisition of Barneys, to redeem Barneys' outstanding 9% senior secured notes and to repay amounts then outstanding under our Senior Credit Facilities.

On February 2, 2004, we redeemed all our outstanding zero coupon convertible senior notes due 2021 at a redemption price (inclusive of issue price plus accrued original issue discount) of \$554.41 per \$1,000 of principal amount at maturity for a total payment of \$446.6 million. As a result of this transaction, we recorded an SG&A expense of \$8.4 million in 2004, representing the writeoff of unamortized bond discounts and debt issuance costs. On June 15, 2004, we redeemed at maturity all our 7.50% senior notes due 2004 for a total payment of \$175.0 million.

Capital Stock Proceeds/Payments

6.44

DELL INC. (JAN)

(In millions)	2005	2004	2003
Cash flows from financing activities:			
Repurchase of common stock	\$(4,219)	\$(2,000)	\$(2,290)
Issuance of common stock under employee plans and other	1,091	617	265
Net cash used in financing activities	\$(3,128)	\$(1,383)	\$(2,025)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Treasury Stock

Effective with the beginning of the second quarter of fiscal 2002, Dell began holding repurchased shares of its common stock as treasury stock. Prior to that date, Dell retired all such repurchased shares which were recorded as a reduction to retained earnings. Dell accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity.

Note 4 (In Part): Capitalization

Common Stock (In Part)

Share Repurchase Program

Dell has a share repurchase program that authorizes the company to purchase shares of common stock in order to both distribute cash to stockholders and manage dilution resulting from shares issued under Dell's equity compensation plans. However, Dell does not currently have a policy that requires the repurchase of common stock in conjunction with share-based payment arrangements. As of January 28, 2005, Dell's share repurchase program authorized the purchase of up to 1.25 billion shares of common stock at an aggregate cost not to exceed \$20 billion. Dell expects to repurchase shares of common stock through a systematic program of open market purchases. As of the end of fiscal 2005, Dell had cumulatively repurchased 1.2 billion shares for an aggregate cost of approximately \$18.3 billion. During fiscal 2005, Dell repurchased 119 million shares of common stock for an aggregate cost of \$4.2 billion.

Dell historically utilized equity instrument contracts to facilitate its repurchase of common stock; however, all remaining put and call contracts were settled in full during the fourth quarter of fiscal 2003.

6.45

UNIVISION COMMUNICATIONS INC. (DEC)

(In thousands)	2004	2003	2002
Cash flow from financing activities:			
Proceeds from issuance of long-term debt	\$ 170,000	\$ 266,000	\$ 694,476
Repayment of long-term debt	(274,897)	(1,076,964)	(331,966)
Proceeds from senior notes	—	694,526	—
Proceeds from issuance of common stock	599,426	—	—
Repurchase of common stock	(599,426)	—	—
Repayment of junior subordinated notes	—	—	(97,477)
Exercise of stock options	24,548	26,270	30,042
Payment of offering costs	(57)	(50)	—
Deferred financing costs	(266)	(1,173)	(171)
Net cash (used in) provided by financing activities	\$ (80,672)	\$ (91,391)	\$ 294,904

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Common Stock, Preferred Stock and Warrants

On January 12, 2004, the Company offered 15,815,999 shares of Class A common stock to the public for \$599,426,000 and used the net proceeds to repurchase an equal amount of shares held by Clear Channel Communications Inc. The shares repurchased by the Company were cancelled immediately and there was no dilution to earnings per share.

Exercise of Stock Options

6.46

TELLABS, INC. (DEC)

(In millions)	2004	2003	2002
Financing activities			
Proceeds from issuance of common stock under option plans	$8.9	$5.9	$ 2.8
Payments of notes payable	—	—	(8.8)
Net cash provided by (used for) financing activities	$8.9	$5.9	$(6.0)

Dividends Paid

6.47

WASTE MANAGEMENT, INC. (DEC)

(In millions)	2004	2003	2002
Cash flows from financing activities:			
New borrowings	$ 415	$ 107	$ 894
Debt repayments	(801)	(563)	(1,591)
Common stock repurchases	(496)	(550)	(982)
Cash dividends	(432)	(6)	(6)
Exercise of common stock options and warrants	193	52	27
Minority interest distributions paid	(25)	—	—
Other	16	(26)	70
Net cash used in financing activities	$(1,130)	$(986)	$(1,588)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Capital Stock, Share Repurchases and Dividends

Dividends

In August 2003, we announced that our Board of Directors approved a quarterly dividend program. The dividend was $0.1875 per share per quarter, or $0.75 per share annually. We paid approximately $432 million for dividends declared under this program during 2004. We paid annual dividends of $0.01 per common share, or approximately $6 million, during 2003 and 2002.

In October 2004, our Board of Directors approved a new capital allocation program that includes the authorization of management, at its discretion, to purchase up to $1.2 billion, net of dividends paid, of common stock each year during 2005, 2006 and 2007. Additionally, the Board of Directors announced that it expects dividends to be $0.20 per share per quarter beginning in 2005. All future dividend declarations are at the discretion of the Board of Directors, and depend on various factors, including our net earnings, financial condition, cash required for future prospects and other factors the Board may deem relevant. On January 28, 2005, the Board declared our first quarterly dividend under the program of $0.20 per share, which will be paid on March 24, 2005 to stockholders of record as of March 1, 2005.

Debt Issuance Costs

6.48

BROWN SHOE COMPANY, INC. (JAN)

($ thousands)	2004	2003	2002
Financing activities			
Increase (decrease) in current maturities of long term debt, net of reclassifications	$22,500	$ (9,500)	$(35,250)
Debt issuance costs	(1,274)	—	(265)
Principal payments of long-term debt	—	(23,500)	(28,550)
Proceeds from stock options exercised	2,581	4,926	2,259
Dividends paid	(7,266)	(7,163)	(7,043)
Net cash provided (used) by financing activities	$16,541	$(35,237)	$(68,849)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In December 2001, the Company entered into a five-year, secured $350 million revolving bank Credit Agreement. The Company entered into an Amended and Restated Credit Agreement (the "Agreement") effective July 21, 2004, which amended and restated its existing $350 million revolving bank Credit Agreement. The Agreement provides for a maximum line of credit of $350 million, subject to the calculated borrowing base restrictions. In addition to extending the credit term, the Agreement also provides other benefits to the Company, including expanding the definition of eligible inventory in certain circumstances and reducing the interest rate spread paid on outstanding borrowings. Borrowing Availability under the Agreement is based upon the sum of eligible accounts receivable and inventory, less outstanding borrowings, letters of credit and applicable reserves. The Agreement matures on July 21, 2009 and the Company's obligations are secured by accounts receivable and inventory of the Company and its wholly owned domestic and Canadian subsidiaries. Borrowings under the Agreement bear interest at a variable rate determined based upon the level of Availability under the Agreement. If Availability falls below specified levels, the Company may be required to reclassify all borrowings under the Agreement to a current liability. Certain covenants would be triggered if Availability were to fall below specified levels, including fixed charge coverage requirements. In addition, if Availability falls below $25 million and the fixed charge coverage ratio is less than 1.0 to 1, the Company would be in default. The Agreement also contains certain other covenants and restrictions. Interest on borrowings is at variable rates based on the LIBOR rate or the base rate, as defined. There is a fee payable on the unused amount of the facility.

In connection with amending the Agreement, the Company incurred approximately $1.3 million of issuance costs during 2004, which, together with remaining unamortized debt issuance costs of approximately $2.7 million associated with the original bank credit agreement, are now being amortized over the five-year term of the Agreement.

Lease Obligation Payments

6.49

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	2004	2003	2002
Financing activities			
Dividends paid	$(2,849,192)	$(2,847,316)	$(2,876,113)
Principal payments on capital lease obligations	(13,741)	(6,080)	—
Borrowings/(repayments) on long-term debt	500,000	4,000,000	(3,750,000)
Repurchase and retirement of common stock	—	(23,949)	(1,164,656)
Net cash provided by (used for) financing activities	$(2,362,933)	$ 1,122,655	$(7,790,769)

Repurchase of Minority Interest

6.50

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	2004	2003	2002
Cash flows from financing activities:			
Notes payable to banks, net	$ (73,775)	$ (548)	$ 38,409
Proceeds from issuance of long-term debt	—	—	109,000
Principal payments of long-term debt	(54,236)	(52,922)	(51,352)
Repurchase of minority interest in a controlled subsidiary	(5,000)	—	—
Purchase of common stock	—	—	(47,241)
Dividends paid	(3,765)	(3,765)	(3,544)
Bond construction fund	1,289	654	563
Other, net	(1,357)	(1,588)	—
Net cash from financing activities	$(136,844)	$(58,169)	$ 45,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Repurchase of Minority Interest

In connection with the December 2001 sale of a 10% minority interest in one of the two power barges in the Dominican Republic, the buyer was given a three-year option to sell the interest back to Seaboard for the book value at the time of sale, pending collections of outstanding receivables. During January 2004, the buyer provided notice to exercise the option. An initial payment of $5,000,000 was paid during the second quarter of 2004 to reacquire this interest. The remaining balance of $922,000 as of December 31, 2004 is payable subject to the collection of the remaining outstanding receivables.

In addition, Seaboard has historically paid commissions to a related entity of the above party relative to the performance of the other power barge. During the second quarter of 2004 Seaboard agreed to terminate that relationship by making a one-time payment of $2,000,000, included in selling, general and administrative expenses.

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

ADOLPH COORS COMPANY (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities			
Net income	$ 196,736	$ 174,657	$ 161,653
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Equity in net earnings of joint ventures	(59,653)	(65,542)	(54,958)
Distributions from joint ventures	72,754	70,900	66,616
Depreciation, depletion and amortization	265,921	236,821	227,132
Amortization of debt issuance costs and discounts	2,456	6,790	3,167
Gain on sale, net of loss on abandonment of properties and intangibles	(15,027)	(4,580)	(9,816)
Gains on sales of securities	—	—	(4,003)
Deferred income taxes	6,215	53,497	11,679
(Gain) loss on FX fluctuations and derivative instruments	(5,740)	1,252	2,576
Minority interest earnings	16,218	—	—
Tax benefit from equity compensation plans	8,398	412	3,410
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in a business combination accounted for under the purchase method) and other			
Trade receivables	(35,671)	31,067	(254,425)
Trade payables	4,575	97,761	107,619
Inventory	(3,441)	(5,549)	39,210
Accrued expenses and other liabilities	24,386	(50,703)	(60,757)
Other	21,781	(17,955)	5,865
Net cash provided by operating activities	499,908	528,828	244,968
Cash flows from investing activities			
Sales and maturities of investments	—	—	232,758
Additions to properties	(211,530)	(240,458)	(246,842)
Proceeds from sales of properties and intangible assets	72,063	16,404	27,357
Acquisition of CBL, net of cash acquired			(1,587,300)
Adjustment to purchase price for pension settlement	25,836	—	—
Cash recognized on initial consolidation of joint ventures	20,840	—	—
Trade loan repayments from customers	54,048	51,863	64,564
Trade loans advanced to customers	(25,961)	(36,553)	(50,987)
Investment in Molson USA, LLC	(2,744)	(5,240)	(2,750)
Other	—	(630)	(7,561)
Net cash used in investing activities	(67,448)	(214,614)	(1,570,761)
Cash flows from financing activities			
Issuances of stock under stock plans	66,764	2,491	15,645
Dividends paid	(30,535)	(29,820)	(29,669)
Dividends paid to minority interests	(7,218)	—	—
Proceeds from issuance of debt	—	—	2,391,934
Net (payments on) proceeds from short-term borrowings	(8,761)	(84,170)	331,333
Net (payments on) proceeds from commercial paper	(250,000)	249,645	—
Payments on debt and capital lease obligations	(114,629)	(462,547)	(1,379,718)
Debt issuance costs	—	—	(10,074)
Change in overdraft balances	8,715	(32,992)	(27,783)
Net cash (used in) provided by financing activities	(335,664)	(357,393)	1,291,668
Cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	96,796	(43,179)	(34,125)
Effect of exchange rate changes on cash and cash equivalents	6,777	3,452	16,159
Balance at beginning of year	19,440	59,167	77,133
Balance at end of year	$ 123,013	$ 19,440	$ 59,167

6.53

STAPLES, INC. (JAN)

(Dollar amounts in thousands)	2005	2004	2003
Operating activities:			
Net income	$ 708,388	$ 490,211	$ 446,100
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	278,845	282,811	267,209
Deferred income tax expense (benefit)	1,595	(13,725)	226
Other	65,771	36,434	35,767
Change in assets and liabilities, net of companies acquired:			
(Increase) decrease in receivables	(49,786)	(4,218)	62,460
(Increase) decrease in merchandise inventories	(63,747)	147,130	(15,781)
Increase in prepaid expenses and other assets	(8,736)	(34)	(3,574)
Increase (decrease) in accounts payable	82,355	(27,266)	49,396
Increase in accrued expenses and other current liabilities	107,608	95,549	63,630
Increase in other long-term obligations	56,915	12,840	8,917
Net cash provided by operating activities	1,179,208	1,019,732	914,350
Investing activities:			
Acquisition of property and equipment	(335,435)	(277,793)	(264,692)
Acquisition of businesses, net of cash acquired	(111,657)	(2,910)	(1,171,187)
Investment in joint venture	(29,330)	—	—
Proceeds from the sale of short-term investments	10,708,696	8,180,025	265,996
Purchase of short-term investments	(10,246,652)	(9,014,125)	(366,171)
Acquisition of lease rights	—	—	(347)
Net cash used in investing activities	(14,378)	(1,114,803)	(1,536,401)
Financing activities:			
Proceeds from the sale of capital stock	—	252,972	—
Proceeds from the exercise of stock options and the sale of stock under employee stock purchase plans	206,394	136,821	78,895
Proceeds from borrowings	—	—	730,897
Payments on borrowings	(235,081)	(325,235)	(95,235)
Repayments under receivables securitization agreement	—	(25,000)	—
Cash dividends paid	(99,527)	—	—
Purchase of treasury stock, net	(511,730)	(4,287)	(474)
Net cash (used in) provided by financing activities	(639,944)	35,271	714,083
Effect of exchange rate changes on cash	14,959	21,376	9,033
Net increase (decrease) in cash and cash equivalents	539,845	(38,424)	101,065
Cash and cash equivalents at beginning of period	457,465	495,889	394,824
Cash and cash equivalents at end of period	$ 997,310	$ 457,465	$ 495,889

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

CURTISS-WRIGHT CORPORATION (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Net earnings	$ 65,066	$ 52,268	$ 45,136
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	40,742	31,327	18,693
Non-cash pension expense (income)	500	(1,611)	(7,208)
Net loss (gain) on sales and disposals of real estate and equipment	1,134	359	(681)
Deferred income taxes	(3,500)	6,035	4,011
Changes in operating assets and liabilities, net of businesses acquired:			
Proceeds from sales of short-term investments	—	—	77,050
Purchases of short-term investments	—	—	(35,600)
(Increase) decreases in receivables	(39,875)	(5,958)	31
Decrease in inventories	7,578	1,893	197
(Decrease) increase in progress payments	(4,338)	1,967	3,464
Increase (decrease) in accounts payable and accrued expenses	19,785	9,343	(61)
Increase (decrease) in deferred revenue	4,849	(10,070)	(2,820)
Increase (decrease) in income taxes payable	8,403	3,240	(11,101)
Pension contributions	—	(5,729)	—
Increase in other current and long-term assets	(1,830)	(963)	(3,254)
Increase in other current and long-term liabilities	6,833	995	2,156
Other, net	—	428	(228)
Total adjustments	40,281	31,256	44,649
Net cash provided by operating activities	105,347	83,524	89,785
Cash flows from investing activities:			
Proceeds from sales and disposals of real estate and equipment	1,192	1,132	2,447
Acquisition of intangible assets	(2,100)	(1,575)	—
Additions to property, plant, and equipment	(32,452)	(33,329)	(34,954)
Acquisition of new businesses, net of cash acquired	(247,402)	(69,793)	(164,661)
Net cash used for investing activities	(280,762)	(103,565)	(197,168)
Cash flows from financing activities:			
Borrowings of debt	624,106	384,712	220,400
Principal payments on debt	(508,025)	(314,204)	(92,795)
Proceeds from exercise of stock options	7,458	3,868	6,226
Dividends paid	(7,666)	(6,520)	(6,141)
Net cash provided by financing activities	115,873	67,856	127,690
Effect of foreign currency	1,908	3,140	1,915
Net (decrease) increase in cash and cash equivalents	(57,634)	50,955	22,222
Cash and cash equivalents at beginning of year	98,672	47,717	25,495
Cash and cash equivalents at end of year	$ 41,038	$ 98,672	$ 47,717
Supplemental disclosure of non-cash investing activities:			
Fair value of assets acquired from current year acquisitions	$ 303,041	$ 78,231	$ 317,003
Additional consideration on prior year acquisitions	3,027	3,147	928
Fair value of common stock issued as consideration for acquisitions	(14,000)	—	—
Liabilities assumed from current year acquisitions	(42,331)	(10,750)	(152,104)
Cash acquired	(2,335)	(835)	(1,166)
Acquisition of new businesses, net of cash acquired	$ 247,402	$ 69,793	$ 164,661

6.56

MATTEL, INC. (DEC)

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 572,723	$ 537,632	$ 230,101
Add: cumulative effect of change in accounting principle, net of tax	—	—	252,194
Deduct: gain from discontinued operations, net of tax	—	—	(27,253)
Income from continuing operations:	572,723	537,632	455,042
Adjustments to reconcile income from continuing operations to net cash flows from operating activities of continuing operations:			
Gains on sale of investments	(22,135)	(15,549)	—
Net (gain) loss on sale of other property, plant and equipment	(2,717)	1,250	—
Non-cash restructuring and other charges	—	792	2,405
Depreciation	176,729	178,256	180,346
Amortization	5,749	5,563	11,582
Deferred income taxes	(18,560)	13,589	80,608
Increase (decrease) from changes in assets and liabilities:			
Accounts receivable	(170,203)	(9,470)	184,154
Inventories	(18,578)	(27,556)	154,293
Prepaid expenses and other current assets	(17,452)	(23,218)	15,589
Accounts payable, accrued liabilities and income taxes payable	58,364	(87,380)	74,445
Deferred compensation and other retirement plans	5,866	14,799	(12,968)
Other, net	586	16,094	10,588
Net cash flows from operating activities of continuing operations	570,372	604,802	1,156,084
Cash flows from investing activities:			
Purchases of tools, dies and molds	(89,858)	(99,267)	(81,037)
Purchases of other property, plant and equipment	(53,732)	(101,133)	(86,357)
Proceeds from sale of investments	32,900	23,615	—
Payments for businesses acquired	(12,955)	(5,015)	(2,910)
Proceeds from sale of other property, plant and equipment	15,588	1,457	12,336
Other, net	—	(420)	(450)
Net cash flows used for investing activities of continuing operations	(108,057)	(180,763)	(158,418)
Cash flows from financing activities:			
Short-term borrowings, net	6,270	(7,087)	(5,929)
Payments of long-term debt	(52,308)	(181,097)	(421,597)
Purchase of treasury stock	(255,130)	(244,446)	—
Payment of dividends on common stock	(186,864)	(171,336)	(21,868)
Proceeds from exercise of stock options	21,683	49,502	55,017
Net cash flows used for financing activities of continuing operations	(466,349)	(554,464)	(394,377)
Net cash from discontinued operations	—	—	43,259
Effect of currency exchange rate changes on cash	8,188	16,068	3,886
Increase (decrease) in cash and cash equivalents	4,154	(114,357)	650,434
Cash and cash equivalents at beginning of year	1,152,681	1,267,038	616,604
Cash and cash equivalents at end of year	$1,156,835	$1,152,681	$1,267,038

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Supplemental Financial Information

(In thousands)	2004	2003	2002
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	$105,321	$115,468	$108,250
Interest	77,111	82,868	120,394
Non-cash investing and financing activities:			
Liability for businesses acquired	$ 1,024	$ 2,021	$ —
Liability for equipment acquired	6,899	—	—
Asset writedowns	(5,095)	—	—

6.57

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	2004	2003	2002
Cash flows from operating activities			
Net income (loss)	$(30,218)	$ (39,067)	$ 32,581
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	42,944	46,270	46,674
Asset impairments	48,476	15,910	—
Restructuring charges (reversals)	13,649	20,082	(1,837)
Gain on sale of discontinued operations	(21,370)	—	—
Pension and postretirement benefit expense	23,245	38,337	790
Loss (gain) on sale of assets	1,299	411	(1,999)
Unrealized loss on marketable securities	—	—	3,700
Amortization of unearned compensation—restricted stock	1,666	2,382	1,785
Deferred tax (benefit) expense	(18,706)	(26,265)	22,430
Other	460	353	1,391
Changes in operating assets and liabilities, net of effects from dispositions and acquisitions:			
Accounts and notes receivable	(2,454)	29,979	34,460
Inventories	(4,754)	10,422	14,319
Income taxes	1,584	16,778	9,170
Other assets	(2,880)	(1,564)	(548)
Restructuring spending	(11,702)	(19,691)	(11,032)
Accounts payable and accrued expenses	12,745	(9,352)	(23,545)
Pension and postretirement obligation	(14,890)	(25,438)	(24,956)
Other deferred liabilities	2,764	5,346	(199)
Net cash provided by operating activities	41,858	64,893	103,184
Cash flows from investing activities			
Acquisitions, net of cash received	(1,461)	—	(99,137)
Additions to plant and equipment	(23,228)	(18,343)	(28,220)
Proceeds from sale of plant and equipment	3,172	8,260	10,032
Proceeds from sale of discontinued operations	16,763	—	—
Sale (purchase) of marketable securities	—	1,300	(5,000)
Additions to other investments	(121)	(293)	—
Net cash used in investing activities	(4,875)	(9,076)	(122,325)
Cash flows from financing activities			
Principal payments on long-term debt	(45,265)	(77,595)	(2,136)
Proceeds from issuance of common stock	1,033	1,604	6,292
Dividends paid	(26,256)	(26,139)	(25,867)
Net cash used in financing activities	(70,488)	(102,130)	(21,711)
Effect of exchange rate changes on cash	634	693	(71)
Net decrease in cash and cash equivalents	(32,871)	(45,620)	(40,923)
Cash and cash equivalents at beginning of year	76,959	122,579	163,502
Cash and cash equivalents at end of year	$ 44,088	$ 76,959	$ 122,579
Supplemental cash flow disclosures			
Cash paid during the year for:			
Interest	$ 2,717	$ 6,083	$ 13,799
Income taxes refunded	(1,847)	(14,845)	(10,588)
Supplemental schedule of noncash financing activities			
Capital lease obligation	$ 1,669	$ —	$ —

6.58

VF CORPORATION (DEC)

(In thousands)	2004	2003	2002
Operating activities			
Net income (loss)	$ 474,702	$ 397,933	$(154,543)
Adjustments to reconcile net income (loss) to cash provided by operating activities of continuing operations:			
Discontinued operations	—	—	(8,283)
Cumulative effect of a change in accounting policy	—	—	527,254
Restructuring costs	—	—	26,342
Depreciation	110,868	104,463	107,398
Amortization and impairment	29,849	13,675	16,285
Provision for doubtful accounts	3,516	11,197	18,490
Pension funding in excess of expense	(236)	(21,785)	3,770
Deferred income taxes	16,172	30,961	70,849
Stock-based compensation	10,956	1,584	1,003
Other, net	20,984	12,543	(12,990)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(20,301)	47,502	(24,077)
Inventories	51,450	61,596	43,253
Other current assets	(19,006)	22,865	(135)
Accounts payable	3,812	(60,636)	54,123
Accrued compensation	48,897	(42,823)	28,697
Other accrued liabilities	(1,407)	(35,371)	(51,852)
Cash provided by operating activities of continuing operations	730,256	543,704	645,584
Investing activities			
Capital expenditures	(81,410)	(86,619)	(64,503)
Business acquisitions, net of cash acquired	(655,089)	(578,038)	(1,342)
Software purchases	(13,018)	(12,775)	(12,141)
Sale of property, plant and equipment	12,900	17,964	25,731
Sale of VF Playwear business	4,517	—	—
Other, net	(103)	(51)	7,675
Cash used by investing activities of continuing operations	(732,203)	(659,519)	(44,580)
Financing activities			
Decrease in short-term borrowings	(19,056)	(30,080)	(16,586)
Proceeds from long-term debt	—	292,110	—
Payments on long-term debt	(3,494)	(16,183)	(301,564)
Purchase of common stock	—	(61,400)	(124,623)
Cash dividends paid	(117,731)	(111,258)	(108,773)
Proceeds from issuance of common stock	106,613	32,631	39,753
Other, net	(730)	(510)	(8,290)
Cash provided (used) by financing activities of continuing operations	(34,398)	105,310	(520,083)
Net cash provided (used) by discontinued operations	(3,320)	(1,417)	69,899
Effect of foreign currency rate changes on cash	10,387	30,340	13,498
Net change in cash and equivalents	(29,278)	18,418	164,318
Cash and equivalents—beginning of year	514,785	496,367	332,049
Cash and equivalents—end of year	$ 485,507	$ 514,785	$ 496,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note V. Supplemental Cash Flow Information

(In thousands)	2004	2003	2002
Income taxes paid	$186,223	$128,770	$132,645
Interest paid	73,171	56,148	72,182
Noncash transactions:			
Notes received for sale of assets	13,664	—	—
Notes issued in acquisition	—	58,300	—
Debt assumed in acquisitions	28,842	18,758	—
Conversion of redeemable preferred stock to common stock	3,934	6,914	3,514
Issuance of common stock for compensation plans	647	1,004	973

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

	2004	**2003**	**2002**	**2001**
Cash and cash equivalents	514	500	492	490
Cash and equivalents	41	40	44	46
Cash	31	40	41	38
Cash and short-term investments	6	9	9	10
Cash and short-term cash investments	5	7	9	9
Cash and temporary investments	2	2	2	3
Cash and marketable securities	—	—	—	1
Other descriptive captions	1	2	3	3
Total Companies	**600**	**600**	**600**	**600**

6.61

CROMPTON CORPORATION (DEC)

Consolidated Balance Sheets

(In thousands of dollars)	2004	2003
Current assets		
Cash	$158,700	$ 39,213
Accounts receivable	242,435	210,190
Inventories	427,933	390,199
Other current assets	167,270	170,852
Total current assets	$996,338	$810,454

Consolidated Statements of Cash Flows

(In thousands of dollars)	2004	2003	2002
Cash			
Change in cash	$119,487	$22,272	$ (4,565)
Cash at beginning of period	39,213	16,941	21,506
Cash at end of period	$158,700	$39,213	$16,941

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Statements of Cash Flows

Cash includes bank term deposits with original maturities of three months or less. Cash payments included interest payments of $62.4 million in 2004, $95.8 million in 2003 and $105.4 million in 2002. Cash payments also included net income tax payments of $26.8 million and $21.4 million in 2004 and 2003, respectively, and net income tax refunds of $26.4 million in 2002. The net income tax refund in 2002 included a $50 million federal income tax refund resulting from a change in tax legislation. Included in the Company's cash balance at December 31, 2004 and 2003, is approximately $20 million and $13 million, respectively, of restricted cash that is required to be on deposit to support certain letters of credit and performance guarantees, the majority of which will be settled within one year.

6.62

THE GILLETTE COMPANY (DEC)

Consolidated Balance Sheet

(Millions)	2004	2003
Current assets		
Cash and cash equivalents	$ 219	$ 243
Short-term investments	847	438
Trade receivables, less allowances: 2004–$37; 2003–$53	835	920
Other receivables	376	351
Inventories	1,291	1,094
Deferred income taxes	303	344
Other current assets	197	282
Total current assets	$4,068	$3,672

Consolidated Statement of Cash Flows

(Millions)	2004	2003	2002
Increase (decrease) in cash and cash equivalents	$ (24)	$104	$(524)
Cash and cash equivalents at beginning of year	243	139	663
Cash and cash equivalents at end of year	$219	$243	$ 139

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Cash, Cash Equivalents, and Short-Term Investments

Cash and cash equivalents include cash, time deposits, and marketable securities that are highly liquid and have maturities of three months or less at date of purchase. Short-term investments include highly liquid marketable securities with maturities greater than three months at date of purchase. These securities are classified as available for sale and are carried at fair market value. Unrealized gains and losses are insignificant, as such securities receive variable interest based on current market rates.

Amounts included in short-term investments were previously reported as cash and cash equivalents due to their highly liquid nature. These marketable securities have been reclassified to short-term investments due to their maturity dates, and purchases and sales are included in investing activities in the Consolidated Statement of Cash Flows.

6.63

KELLY SERVICES, INC. (DEC)

Balance Sheets

(In thousands of dollars)	2004	2003	2002
Current assets			
Cash and equivalents	$ 87,554	$ 76,378	$100,936
Short-term investments	1,288	457	599
Trade accounts receivable, less allowances of $16,228, $14,983 and $12,533, respectively	727,366	658,090	567,517
Prepaid expenses and other current assets	40,736	31,784	26,387
Deferred taxes	34,967	24,962	23,916
Total current assets	$891,911	$791,671	$719,355

Statements of Cash Flows

(In thousands of dollars)	2004	2003	2002
Net change in cash and equivalents	$11,176	$ (24,558)	$ 17,475
Cash and equivalents at beginning of year	76,378	100,936	83,461
Cash and equivalents at end of year	$87,554	$ 76,378	$100,936

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Equivalents

Cash and equivalents are stated at cost, which approximates market. The Company considers securities with original maturities of three months or less to be cash and equivalents.

6.64

TERRA INDUSTRIES INC. (DEC)

Consolidated Statements of Financial Position

(In thousands)	2004	2003
Cash and short-term investments	$233,798	$ 87,334
Accounts receivable, less allowance for doubtful accounts of $262 and $87	150,271	133,480
Inventories	148,808	90,869
Other current assets	58,106	43,319
Total current assets	$590,983	$355,002

Consolidated Statements of Cash Flows

(In thousands)	2004	2003	2002
Increase in cash and short-term investments	$146,464	$28,855	$51,354
Cash and short-term investments at beginning of year	87,334	58,479	7,125
Cash and short-term investments at end of year	$233,798	$87,334	$58,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Short-Term Investments

Terra considers short-term investments with an original maturity of three months or less to be cash equivalents, which are reflected at their approximate fair value.

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

	2004	2003	2002	2001
Precedes financial statements and notes	383	354	343	309
Follows financial statements and notes	216	245	250	283
Between financial statements and notes	1	1	6	4
Other	—	—	1	4
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

	2004	2003	2002	2001
Board of Directors and Stockholders	545	509	500	462
Board of Directors	30	49	53	43
Stockholders	17	28	31	43
Company	5	8	10	47
Other or no addressee	3	6	6	5
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

7.09 Paragraph 8 of *SAS No. 58* presents examples of auditors' standard reports for single-year financial statements and for comparative two-year financial statements. The examples presented in paragraph 8 of *SAS No. 58*, as amended by SAS No. 93, *Omnibus Statement on Auditing Standards—2000*, follow:

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20XX, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

7.10 Most of the survey companies present a balance sheet for 2 years and the other basic financial statements for 3 years. Appropriate wording in this situation is stated in footnote 7 to paragraph 8 of *SAS No. 58*.

7.11 As permitted by Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, 90 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

The Board of Directors
Texas Instruments Incorporated

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 Texas Instruments Incorporated and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 December 31, 2004, 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 17, 2005 expressed an unqualified opinion thereon.

Statement of Operations and Comprehensive Income

7.13

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
The Standard Register Company

We have audited the accompanying consolidated balance sheet of The Standard Register Company and subsidiaries as of January 2, 2005 and December 28, 2003, and the related consolidated statements of income and comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended January 2, 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 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 The Standard Register Company and subsidiaries as of January 2, 2005 and December 28, 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 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 Standard Register Company and subsidiaries' internal control over financial reporting as of January 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 March 10, 2005 expressed an unqualified opinion.

Statement of Changes in Shareholders' Equity

7.14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Shareholders and Board of Directors
Sunoco, Inc.

We have audited the accompanying consolidated balance sheets of Sunoco, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive income and shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 Sunoco, Inc. and subsidiaries at December 31, 2004 and 2003 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 Sunoco, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2004, 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 3, 2005 expressed an unqualified opinion thereon.

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.
>
> 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.

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 11 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

To the Board of Directors and Shareholders of
Iron Mountain Incorporated

We have audited the accompanying consolidated balance sheets of Iron Mountain Incorporated (a Pennsylvania corporation) and its subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Iron Mountain Europe Limited (a consolidated subsidiary) as of or for the two years ended October 31, 2003, which statements reflect total assets constituting 18% of consolidated total assets as of December 31, 2003, and total revenues constituting 12% and 7% of the total consolidated revenue for the years ended December 31, 2003 and 2002, respectively. Such 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 Iron Mountain Europe Limited for 2003 and 2002, 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Iron Mountain Incorporated and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 December 31, 2004, 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 11, 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.

7.21

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Unifi, Inc.

We have audited the accompanying consolidated balance sheets of Unifi, Inc. as of June 27, 2004, and June 29, 2003, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 27, 2004. Our audits also included the Valuation and Qualifying Accounts 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. The consolidated financial statements of Parkdale America, LLC, (a corporation in which the Company has a 34% interest), as of January 3, 2004 and for the year then ended, have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the amounts included for periods on or before January 3, 2004, for Parkdale America, LLC, it is based solely on their report. In the consolidated financial statements, the Company's investment in Parkdale America, LLC is stated at $142,064,000 and $150,586,000, respectively, at June 27, 2004 and June 29, 2003, and the Company's equity in the net income (loss) of Parkdale America, LLC is stated at $(6,857,000) and $11,749,000 for the years then ended.

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 Unifi, Inc. at June 27, 2004 and June 29, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 27, 2004, 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 financial statements, in 2002 the Company adopted Statement of Financial Accounting Standard No. 142, requiring the Company to cease the amortization of goodwill and instead review goodwill for impairment on adoption and annually thereafter.

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

	2004	2003	2002	2001
Going concern	6	11	20	21
Other	4	2	8	3
Total Uncertainties	**10**	**13**	**28**	**24**
Total Companies	**8**	**12**	**26**	**24**

7.25

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Federal-Mogul Corporation

We have audited the accompanying consolidated balance sheets of Federal-Mogul Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule for the three years in the period ended December 31, 2004, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the three years in the period ended December 31, 2004, when considered in relation to the basic financial statements, taken as a whole, represents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been assuming that Federal-Mogul Corporation and subsidiaries will continue as a going concern. As more fully described in the notes to the consolidated financial statements, on October 1, 2001, Federal-Mogul Corporation and its wholly-owned United States subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. In addition, certain Federal-Mogul subsidiaries in the United Kingdom have filed jointly for Chapter 11 and Administration under the United Kingdom Insolvency Act of 1986. Uncertainties inherent in the bankruptcy process raise substantial doubt about Federal-Mogul Corporation's ability to continue as a going concern. Management's intentions with respect to these matters are also described in the notes. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, the Company changed its methods of accounting for goodwill and indefinite-lived intangible assets in 2002.

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 December 31, 2004, 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 25, 2005 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Statement Presentation

As further discussed in Note 2 to the consolidated financial statements, "Voluntary Reorganization Under Chapter 11 and Administration", on October 1, 2001 (the "Petition Date"), the Company and all of its wholly-owned United States subsidiaries filed voluntary petitions for reorganization (the "U.S. Restructuring") under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). Also on October 1, 2001, certain of the Company's United Kingdom subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court, and filed petitions for Administration (the "U.K. Restructuring") under the United Kingdom Insolvency Act of 1986 (the "Act") in the High Court of Justice, Chancery division in London, England (the "High Court"). The Company and its U.S. and U.K. subsidiaries included in the U.S. Restructuring or the U.K. Restructuring are herein referred to as the "Debtors." The U.S. Restructuring and U.K. Restructuring are herein referred to as the "Restructuring Proceedings." The Chapter 11 cases of the Debtors (collectively, the "Chapter 11 Cases") have been consolidated for purposes of joint administration as *In re: Federal-Mogul Global Inc., T&N Limited, et al* (Case No. 01—10578(RTL)). Subsidiaries outside of the aforementioned U.S. and U.K. subsidiaries are not party to the Chapter 11 Cases and, therefore, are not currently provided protection from creditors by any bankruptcy court and are operating in the normal course.

The accompanying consolidated financial statements have been prepared in accordance with AICPA Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" and on a going concern basis, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Restructuring Proceedings, such realization of assets and liquidation of liabilities, without substantial adjustments and/or changes of ownership, is highly uncertain. While operating as debtors-in-possession ("DIP") under the protection of Chapter 11 of the Bankruptcy Code and Administration under the Act, and subject to approval of the Bankruptcy Court, Administrators or the High Court or otherwise as permitted in the ordinary course of business, the Debtors, or some of them, may sell or otherwise dispose of assets and liquidate or settle liabilities for some amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization, scheme of arrangement, or company voluntary arrangement could materially change the amounts and classifications in the historical consolidated financial statements.

The appropriateness of using the going concern basis for the Company's financial statements is dependent upon, among other things: (i) the Company's ability to comply with the terms of the DIP credit facility and any cash management order entered by the Bankruptcy Court in connection with the Chapter 11 Cases; (ii) the ability of the Company to maintain adequate cash on hand; (iii) the ability of the Company to generate cash from operations; (iv) confirmation of a plan(s) of reorganization under the Bankruptcy Code; (v) confirmation of a scheme(s) of arrangement or company voluntary arrangement(s) in the U.K. under Administration; and (vi) the Company's ability to achieve profitability following such confirmations.

2. Voluntary Reorganization Under Chapter 11 and Administration

On October 1, 2001, Federal-Mogul and all of its wholly-owned United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. Also on October 1, 2001, certain of the Company's United Kingdom subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court, and filed petitions for Administration under the United Kingdom Insolvency Act of 1986 in the High Court. Subsidiaries outside of the aforementioned U.S. and U.K. subsidiaries are not party to the Chapter 11 Cases and, therefore, are not currently provided protection from creditors by any bankruptcy court and are operating in the normal course.

The Restructuring Proceedings were initiated in response to a sharply increasing number of asbestos-related claims and their demand on the Company's cash flows and liquidity. Under the Restructuring Proceedings, the Debtors expect to develop and implement a plan for addressing the asbestos-related claims against them.

Consequences of the Restructuring Proceedings

The U.S. Debtors are operating their businesses as debtors-in-possession subject to the provisions of the Bankruptcy Code. The U.K. Debtors are continuing to manage their operations under the supervision of Administrators approved by the High Court. All vendors are being paid for all goods furnished and services provided after the Petition Date. However, as a consequence of the Restructuring Proceedings, pending litigation against the Debtors as of the Petition Date is stayed (subject to certain exceptions in the case of governmental authorities), and no party may take any action to pursue or collect pre-petition claims except pursuant to an order of the Bankruptcy Court or the High Court, as applicable. It is the Debtors' intention to address pending and future asbestos-related claims and other pre-petition claims through a unified plan of reorganization under the Bankruptcy Code or schemes of arrangement or company voluntary arrangements under the Act.

In the U.S., four committees, representing asbestos claimants, asbestos property damage claimants, unsecured creditors and equity security holders (collectively, the "Committees") have been appointed as official committees in the Chapter 11 Cases and, in accordance with the provisions of the Bankruptcy Code, have the right to be heard on all matters that come before the Bankruptcy Court. The Committees, together with the legal representative for the future asbestos claimants, play important roles in the Restructuring Proceedings. In the U.K., the Administrators have appointed creditors committees, representing both asbestos claimants and general unsecured creditors.

On June 4, 2004, the Third Amended Joint Plan of Reorganization (the "Plan") for the Company and the other U.S. and U.K. Debtors was filed with the Bankruptcy Court. The Plan was jointly proposed by the Company, the Unsecured Creditors Committee, the Asbestos Claimants Committee, the Future Asbestos Claimants Representative, the Agent for the Prepetition Bank Lenders and the Equity Security Holders Committee (collectively referred to as the "Plan Proponents"). Also on June 4, 2004, a Disclosure Statement to be used in soliciting votes to accept or reject the Plan (the "Disclosure Statement") was approved by the Bankruptcy Court and a December 2004 hearing was scheduled to determine whether the Bankruptcy Court should approve the Plan. On December 7, 2004, the Bankruptcy Court delayed this confirmation hearing pending a hearing to estimate asbestos personal injury claims against the U.K. Debtors. Such estimation hearing has not yet been scheduled.

On July 12, 2004, solicitation packages containing the Plan and Disclosure Statement, various supporting documents and a ballot, if appropriate, were mailed to known creditors of the Company and holders of common and preferred stock interests in the Company. All votes were due by the close of business on November 3, 2004. Although the Plan Proponents have granted extensions of the November 3, 2004 voting deadline to a few significant claimants, the voting agent has confirmed that the overwhelming majority of the classes of claims and interests have voted to accept the Plan. For the few classes of claims that voted to reject the Plan, the Plan Proponents intend to either amend the Plan so as to obtain such classes' accepting votes or seek to confirm the Plan over the objection of such classes.

The Plan provides that asbestos personal injury claimants, both present and future, will be permanently channeled to a trust or series of trusts established pursuant to Section 524(g) of the Bankruptcy Code, thereby protecting Federal-Mogul and its affiliates in the Chapter 11 Cases from existing and future asbestos liability. Although certain issues remain to be resolved, the Plan provides that all currently outstanding stock of Federal-Mogul will be cancelled, and 50.1% of newly authorized and issued common stock of reorganized Federal-Mogul will be distributed to the asbestos trusts, and 49.9% of the newly authorized and issued common stock will be distributed pro rata to the noteholders. If the classes of holders of common and preferred stock of Federal-Mogul vote in favor of the Plan, the holders of currently outstanding common and preferred stock of Federal-Mogul will receive warrants that may be used to purchase shares of reorganized Federal-Mogul at a predetermined exercise price.

Unsecured creditors, including trade creditors, of the U.S. Debtors are projected to receive cash distributions under the Plan equal to 35% of their allowed claims, payable in three annual installments, provided that the aggregate of all allowed unsecured claims against the U.S. Debtors does not exceed $258 million. Any excess above this amount could result in a reduction in the percentage distribution that the unsecured creditors of the U.S. Debtors ultimately receive. Unsecured creditors, including trade creditors, of the U.K. Debtors will receive distributions that vary according to terms specified within the Plan and Disclosure Statement.

There are two possible types of U.K. schemes of arrangements. The first is under Section 425 of the Companies Act of 1985, which may involve a scheme for the reconstruction of the Company. If a majority in number representing three-fourths in value of the creditors or members or any class of them agree to the compromise or arrangement, it is binding if sanctioned by the High Court. Section 425 may be invoked where there is an Administration order in force in relation to the Company. The other possible type of scheme arises under Section 1 of the Insolvency Act of 1986 in relation to Company Voluntary Arrangements ("CVAs"). If a majority in value representing more than three-fourths of the creditors agrees to the compromise or arrangement set out in the CVA proposal, it will be approved.

The Plan Proponents have prepared forms of Schemes of Arrangement and CVAs to be submitted for the U.K. Debtors in the U.K. Restructuring proceedings. These forms of Schemes of Arrangement and CVAs parallel the provisions of the Plan to the fullest extent possible under English and Scottish insolvency law. Under English and Scottish law, the Administrators are the only persons with authority to recommend and submit Schemes of Arrangement and/or CVAs. The Administrators have not yet agreed to recommend the Schemes of Arrangement and CVAs that parallel the Plan. The Plan Proponents are working toward an agreement with the Administrators to recommend parallel Schemes of Arrangement and CVAs. Alternatively, if such an agreement cannot be achieved, the Plan Proponents will work toward an agreement with the Administrators to retain the businesses of those U.K. Debtors that are valuable to Federal-Mogul and its customers and to jointly market those U.K. Debtors that are not valuable to Federal-Mogul and its customers. This process is consistent with the Company's strategy to focus on core business segments, and to consider for divestiture or other exit activities those non-core operations determined by management not to have a sustainable competitive advantage.

In October 2004, the Administrators applied to the High Court for directions related to: 1) questions of fairness of the Plan; 2) the approach of the High Court to CVAs and schemes of arrangement designed to implement the Plan within the U.K.; 3) the compatibility with English pension laws of the proposals for the trustees of pension schemes of the U.K. debtors; and 4) the impact under English insolvency law should the Administrators not propose CVAs and schemes of arrangement. In response to the application for directions, the High Court directed the Administrators to not propose schemes of arrangement and CVAs consistent with the draft schemes and draft CVAs included within the currently filed Plan without further order of the High Court. In addition, the High Court directed the Administrators to not convene meetings of creditors of the U.K. Companies pursuant to any demands or requisitions made pursuant to the Plan. Additionally, the High Court granted the Administrators leave to modify their consent, if necessary, with the directors of the U.K. Debtors exercising their powers either to a) promote and/or confirm the Plan; or b) file or continue any motion in the Bankruptcy Court which seeks relief in relation to the Administrators or the U.K. Debtors.

If the Plan Proponents and the Administrators cannot reach an agreement regarding either Schemes of Arrangement and CVAs that parallel the Plan or the means by which Federal-Mogul will retain the businesses of those U.K. Debtors that are valuable to Federal-Mogul and its customers, then one or more of the following may occur with respect to each U.K. Debtor: (a) the U.K. Debtors and the Plan Proponents may ask the High Court to approve the Plan with respect to the U.K. Debtors as a matter of comity; or (b) Federal-Mogul may bid for those businesses of the U.K. Debtors that are valuable to Federal-Mogul and its customers and any actual or deemed transfer of assets to Federal-Mogul in connection therewith shall be entitled to the benefits of the injunction pursuant to Section 524(g) of the Bankruptcy Code. If Federal-Mogul is not the successful bidder, the injunction pursuant to Section 524(g) of the Bankruptcy Code shall not apply to the transfer of any assets to any entity other than Federal-Mogul or its designee. The Company believes that, in the event the assets of the U.K. debtors are marketed for public sale, Federal-Mogul ultimately will be the successful bidder for those assets that are valuable to Federal-Mogul and its customers. Any remaining assets would be liquidated. The Company believes that such a non-consensual process with the Administrators is not in the best interest of the creditors of the U.K. Debtors, including pension creditors, and employees of the U.K. Debtors, and that the failure to arrive at a consensual plan could be damaging to the interests of such parties.

The Company is unable to predict with a high degree of certainty at this time what treatment will be accorded under any such plan of reorganization to claims against the U.K. Debtors arising from intercompany indebtedness, licenses, executory contracts, transfers of goods and services, and other intercompany arrangements, transactions and relationships that were entered into prior to the Petition Date. Various parties in the Chapter 11 Cases may challenge these arrangements, transactions, and relationships, and the outcome of those challenges, if any, may have an impact on the treatment of various claims under such plan of reorganization.

The Bankruptcy Court may confirm a plan of reorganization only upon making certain findings required by the Bankruptcy Code, and a plan may be confirmed over the dissent of non-accepting creditors and equity security holders if certain requirements of the Bankruptcy Code are met. The payment rights and other entitlements of pre-petition creditors and equity security holders may be substantially altered by any plan of reorganization confirmed in the Chapter 11 Cases. There is no assurance that there will be sufficient assets to satisfy the Debtors' pre-petition liabilities in whole or in part, and the pre-petition creditors of some Debtors may be treated differently than those of other Debtors.

Chapter 11 Financing (In Part)

In connection with the Restructuring Proceedings, the Company entered into a DIP credit facility to supplement liquidity and fund operations during the restructuring proceedings. In December 2004, the Company renegotiated its DIP credit facility. Prior to December 2004, the Company's DIP credit facility had an interest rate of either the alternate base rate ("ABR") plus 2 percentage points or a formula based on the London Inter-Bank Offered Rate ("LIBOR") plus 3 percentage points. The ABR is the greater of either the bank's prime rate or the base CD rate plus 1 percentage point or the federal funds rate plus ½ percentage point.

The December 2004 DIP credit facility expires in December 2005, and the interest rate is either the ABR plus 1¼ percentage points or a formula based on LIBOR plus 2¼ percentage points. The ABR is the greater of either the bank's base rate or the federal funds rate plus ½ percentage point. In addition, the commitment available under the DIP credit facility is mandatorily reduced by a portion of proceeds received from future asset or business divestitures.

The Company's available borrowings under the existing DIP credit facility are determined by the underlying collateral at any point in time, consisting of its domestic inventories and domestic accounts receivable. The DIP lenders received permission from the lenders of the Senior Credit Agreements to have priority over their collateral interest. Amounts available and outstanding on the DIP credit facility are further discussed in Note 13 to the consolidated financial statements.

As a condition of the existing DIP credit facility, the Bankruptcy Court ordered that the noteholders receive, in cash, adequate protection payments equal to one-half of one percent (0.5%) per year of the outstanding notes per year. These cash payments, which approximate $2.6 million per quarter, are recorded as interest expense in the statement of operations. All cash adequate protection payments made to the noteholders are provisional in nature and are subject to recharacterization, credit against allowed claims, or other relief if the Bankruptcy Court were to ultimately conclude that the noteholders were not entitled to such payments.

The Bankruptcy Court further ordered additional adequate protection to the noteholders in the form of either cash payment of one-half of one percent (0.5%) per year of the outstanding notes or the granting of an administrative expense claim pursuant to Section 507(b) of the Bankruptcy Code in the amount of one percent (1.0%) per year of the outstanding notes. The Company has elected to grant an administrative expense claim in favor of the noteholders for this additional adequate protection. All adequate protection administrative expense claims inured in favor of the noteholders are provisional in nature and subject to challenge by all parties-in-interest to the Restructuring Proceedings. Accordingly, the ultimate amount and related payment terms, if any, for these administrative expense claims will be established in connection with the Restructuring Proceedings. Accordingly, such administrative expense claims, approximating $68 million as of December 31, 2004, have not been recorded in the accompanying financial statements.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with AICPA Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" and on a going concern basis, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Restructuring Proceedings, such realization of assets and liquidation of liabilities, without substantial adjustments and/or changes of ownership, is highly uncertain. Given this uncertainty, there is substantial doubt about the ability of the Company to continue as a going concern. While operating as debtors-in-possession under the protection of Chapter 11 of the Bankruptcy Code and Administration under the Act, and subject to approval of the Bankruptcy Court, Administrators or the High Court or otherwise as permitted in the ordinary course of business, the Debtors, or some of them, may sell or otherwise dispose of assets and liquidate or settle liabilities for some amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization or scheme of arrangement could materially change the amounts and classifications in the historical consolidated financial statements.

Virtually all of the Company's pre-petition debt is in default. At December 31, 2004, the Debtors' pre-petition debt is classified under the caption "Liabilities subject to compromise." This includes debt outstanding of $1,937.8 million under the pre-petition Senior Credit Agreements and $2,118.2 million of other outstanding debt, primarily notes payable at various unsecured rates, less capitalized debt issuance fees of $29.1 million. The carrying value of the pre-petition debt will be adjusted once it has become an allowed claim by the Bankruptcy Court to the extent the related carrying value differs from the amount of the allowed claim. Such adjustment may be material to the consolidated financial statements.

As a result of the Restructuring Proceedings, the Company is in default to its affiliate holder of its convertible junior subordinated debentures and is no longer accruing interest expense or making interest payments on the debentures. As a result, the affiliate will no longer have the funds available to pay distributions on the Company-Obligated Mandatorily Redeemable Preferred Securities and stopped accruing and paying such distributions on October 1, 2001. The affiliate is in default on the Company-Obligated Mandatorily Redeemable Preferred Securities. The Company is a guarantor on the outstanding debentures and, as a result of the default, the Company has become a debtor to the holders of the debentures directly. This liability is a pre-petition liability. As a result, the Company has classified these securities as "Liabilities subject to compromise" in the consolidated balance sheets.

As reflected in the consolidated financial statements, "Liabilities subject to compromise" refers to Debtors' liabilities incurred prior to the commencement of the Restructuring Proceedings. The amounts of the various liabilities that are subject to compromise are set forth below. These amounts represent the Company's estimate of known or potential pre-petition claims to be resolved in connection with the Restructuring Proceedings. Such claims remain subject to future adjustments. Future adjustments may result from (i) negotiations; (ii) actions of the Bankruptcy Court, High Court or Administrators; (iii) further developments with respect to disputed claims; (iv) rejection of executory contracts and unexpired leases; (v) the determination as to the value of any collateral securing claims; (vi) proofs of claim; or (vii) other events. Payment terms for these claims will be established in connection with the Restructuring Proceedings.

Liabilities subject to compromise include the following:

(Millions of dollars)	2004	2003
Debt	$4,026.9	$4,020.7
Asbestos liabilities	1,584.0	1,568.4
Accounts payable	204.5	201.8
Company-obligated mandatorily redeemable securities	114.6	211.0
Interest payable	43.9	43.9
Environmental liabilities	23.6	23.8
Other accrued liabilities	21.0	18.2
Subtotal	6,018.5	6,087.8
Intercompany payables to affiliates	3,301.3	3,204.9
	$9,319.8	$9,292.7

The Debtors have received approval from the Bankruptcy Court to pay or otherwise honor certain of their pre-petition obligations, including employee wages, salaries, benefits and other employee obligations and from limited available funds, pre-petition claims of certain critical vendors, certain customer programs and warranty claims, adequate protection payments on the Company's notes, and certain other pre-petition claims.

Cash in the United Kingdom is available only for use by the debtor entities within the United Kingdom and is not available for use outside of such entities subject to final settlement of the U.K. Restructuring proceedings. At December 31, 2004 and 2003, such cash balances were $425 million and $261 million, respectively.

Chapter 11 and Administration related reorganization expenses in the consolidated statements of operations consist of legal, financial and advisory fees, including fees of the U.K. Administrators, critical employee retention costs, and other directly related internal costs as follows:

(Millions of dollars)	2004	2003	2002
Professional fees directly related to the filing	$ 92.5	$70.4	$ 73.7
Critical employee retention costs	10.3	8.2	19.2
Other direct costs	15.4	18.5	14.5
Gain on settlement of outstanding claim	(18.5)	—	—
	$ 99.7	$97.1	$107.4

In July 2004, the Company reached an agreement with a creditor of one of the Company's U.S. subsidiaries whereby the Company and the creditor settled an outstanding liability of $20.0 million in exchange for a general unsecured claim of $1.5 million. The settlement agreement was approved by the Bankruptcy Court on July 30, 2004. As a result of this agreement, the Company reduced its recorded liability for this claim and recorded $18.5 million as a reduction to Chapter 11 and Administration related reorganization expense.

Pursuant to the Bankruptcy Code, the Debtors have filed schedules with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the Petition Date. On October 4, 2002, the Debtors issued approximately 100,000 proof of claim forms to its current and prior employees, known creditors, vendors and other parties with whom the Debtors have previously conducted business. To the extent that recipients disagree with the claims as quantified on these forms, the recipient may file discrepancies with the Bankruptcy Court. Differences between amounts recorded by the Debtors and claims filed by creditors will be investigated and resolved as part of the Restructuring Proceedings. The Bankruptcy Court ultimately will determine liability amounts that will be allowed for these claims in the Chapter 11 Cases. A March 3, 2003 bar date was set for the filing of proofs of claim against the Debtors. Because the Debtors have not completed evaluation of the claims received in connection with this process, the ultimate number and allowed amount of such claims are not presently known. The resolution of such claims could result in a material adjustment to the Company's financial statements.

Approximately 10,600 proofs of claim totaling approximately $158.5 billion alleging a right to payment from a Debtor were filed in connection with the March 3, 2003 bar date as follows:

- Approximately 2,200 claims, totaling approximately $142.1 billion, which the Company believes should be disallowed by the Bankruptcy Court primarily because these claims appear to be duplicative or unsubstantiated claims.
- Approximately 400 claims, totaling approximately $8.1 billion, are associated with asbestos-related contribution, indemnity, or reimbursement claims. Based upon its preliminary review, the Company believes that a large number of these claims should be disallowed as contingent contribution or reimbursement claims.
- Approximately 100 claims, totaling approximately $7.1 billion, represent bank and note-holder debt claims. The Company has previously recorded approximately $4.3 billion for these claims, which is included in the financial statement caption "Liabilities subject to compromise". The Company believes amounts in excess of its books and records are duplicative and will ultimately be resolved in the consensual plan of reorganization.
- Approximately 3,800 claims, totaling approximately, $200 million, are alleging asbestos-related property damage. Based on its review, the Company believes most of these claims are duplicative or unsubstantiated. The Company has entered into a stipulation with certain claimants that will result in the withdrawal of approximately 1,200 of these claims with prejudice. This stipulation is subject to and pending the approval of the Bankruptcy Court.
- Approximately 2,000 claims, totaling approximately $40 million, have been reviewed and are deemed allowed by the Company. The liability for such claims is included within the financial statement caption "Liabilities subject to compromise."

The Company has not completed its evaluation of the approximate remaining 2,100 claims, totaling approximately $1.0 billion, alleging rights to payment for financing, environmental, trade accounts payable and other matters. The Company continues to investigate these unresolved proofs of claim, and intends to file objections to the claims that are inconsistent with its books and records. As of December 31, 2004, the Debtors have filed objections to more than 5,600 proofs of claim, and have obtained stipulations or orders involving approximately 2,300 claims, which (i) reduce the filed claims to an amount that is consistent with the Debtors books or records, (ii) completely disallow the claims, or (iii) withdraw the claims.

The Debtors continue to review and analyze the proofs of claim filed to date. In addition, the Debtors continue to file objections and seek stipulations to certain claims. Additional claims may be filed after the general bar date, which could be allowed by the Bankruptcy Court. Accordingly, the ultimate number and allowed amount of such claims are not presently known and cannot be reasonably estimated at this time. The resolution of such claims could result in a material adjustment to the Company's financial statements.

7.26

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Foster Wheeler Ltd.

We have completed an integrated audit of Foster Wheeler Ltd.'s (the "Company's") 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 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 Foster Wheeler Ltd. and its subsidiaries at December 31, 2004 and December 26, 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with 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, effective December 29, 2001, the Company adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets."

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred significant losses in each of the years in the three-year period ended December 31, 2004 and has a shareholders' deficit of $513,283,000 at December 31, 2004. The Company has substantial debt obligations and during 2004 it was required to obtain an additional amendment to its senior credit facility to provide covenant relief by modifying certain definitions of financial measures utilized in the calculation of certain financial covenants. Realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to return to profitability, to complete planned restructuring activities, to generate cash flows from operations and collections of receivables to fund its operations, including obligations resulting from asbestos claims, as well as the Company maintaining credit facilities and bonding capacity adequate to conduct its business. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 31, 2004, because the Company did not maintain effective controls over completeness and accuracy of estimated costs to complete at one of its European power projects 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 defined as a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the Company's 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, 2004, the Company did not maintain effective controls over the completeness and accuracy of estimated costs to complete at one of its European power projects. Specifically, the Company's controls over its estimated costs to complete were not operating effectively because project management and accounting personnel did not have adequate control of commitments to third-party subcontractors and vendors, and therefore did not adequately track the actual financial results of the project on a timely basis. The control deficiency did not result in any adjustments to the 2004 annual or interim consolidated financial statements. However, this control deficiency could result in a misstatement to the estimated costs to complete long-term contracts and cost of operating revenue accounts resulting in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management 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 2004 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.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, 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, the Company has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars)

1. Going Concern

The accompanying consolidated financial statements of Foster Wheeler Ltd., hereinafter referred to as "Foster Wheeler" or the "Company," were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company may not, however, be able to continue as a going concern. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably, to generate cash flows from operations, collections of receivables to fund its obligations, including those resulting from asbestos-related liabilities, as well as the Company's ability to maintain credit facilities and bonding capacity adequate to conduct its business. The Company incurred significant operating losses in each of the years in the three-year period ended December 31, 2004, and has a shareholders' deficit of $513,283 as of December 31, 2004.

In 2004, the Company consummated an equity-for-debt exchange in which it issued common shares, preferred shares, warrants to purchase common shares and new notes in exchange for certain of its outstanding debt securities and trust securities. The exchange offer reduced the Company's existing debt (excluding a reduction in deferred accrued interest of $31,128) by $437,041, improved the Company's shareholders' deficit by $448,136 and when combined with the proceeds from the issuance of the new notes that were used to repay amounts that were outstanding under a previous Senior Credit Facility, eliminated substantially all material scheduled corporate debt maturities prior to 2011. After completing the exchange, the Company had outstanding debt obligations of approximately $570,073 as of December 31, 2004.

In August of 2002, the Company negotiated a Senior Credit Facility that was comprised of a $71,000 term loan, a $69,000 revolving credit facility and a $149,900 letter of credit facility having an April 30, 2005 maturity date. In connection with the equity-for-debt exchange, the Company prepaid the term loan and amounts outstanding under the revolving credit facility. Accordingly, there were no borrowings outstanding under the Senior Credit Facility as of December 31, 2004. Letters of credit of $90,018 remained outstanding under the Senior Credit Facility as of December 31, 2004.

In March 2005, the Senior Credit Facility was replaced with a new 5-year $250,000 Senior Credit Agreement. The new Senior Credit Agreement includes a $75,000 sub-limit for borrowings at a rate equal to LIBOR plus a spread. Standby letters of credit issued under the new Senior Credit Agreement will carry a fixed price throughout the life of the facility. The Senior Credit Agreement is collateralized by the assets and/or the stock of certain of the Company's domestic subsidiaries and certain of its foreign subsidiaries. The Company paid up-front fees to the lender of approximately $8,225 in conjunction with the execution of the Senior Credit Agreement. Such fees, paid predominately in the first quarter of 2005, have been deferred and will be amortized to expense over the life of the agreement.

The Company finalized a sale/leaseback arrangement for an office building at its corporate headquarters in the third quarter of 2002. Under this arrangement, the Company leases the facility for an initial non-cancelable period of 20 years. The long-term capital lease obligation of $45,280 as of December 31, 2004 is included in long-term debt in the accompanying consolidated balance sheet.

The new Senior Credit Agreement and the sale/leaseback arrangement have quarterly financial covenant compliance requirements. Management's forecast indicates that the Company will be in compliance with the financial covenants throughout 2005. The forecast assumes a significant level of new contracts and improved performance on existing contracts. However, there can be no assurance that the Company will comply with the covenants. If the Company violates a covenant under the Senior Credit Agreement or the sale/leaseback arrangement, repayment of amounts outstanding under such agreements could be accelerated and the following borrowings outstanding could also be accelerated: the 2011 Senior Notes, the 2005 Senior Notes, the Convertible Subordinated Notes, the Trust Preferred Securities, the Subordinated Robbins Facility Exit Funding Obligations, and certain of the special-purpose project debt facilities. The total amount of Foster Wheeler Ltd. debt that could be accelerated is $463,563 as of December 31,2004. The Company would not be able to repay amounts borrowed if the payment dates were accelerated.

Holders of the Company's new 2011 Senior Notes have a security interest in the stock, debt and assets of certain of Foster Wheeler Ltd.'s subsidiaries. The 2011 Senior Notes contain incurrence covenants that limit the Company's ability to undertake certain actions including incurring debt, making certain payments and investments, granting liens, selling assets and entering into specific intercompany transactions, among others. Management monitors these covenants to ensure the Company remains in compliance with the indenture.

In connection with the exchange, the holders of the Company's 2005 Senior Notes agreed to amend the indenture governing these notes to effectively eliminate the security interest previously held by the notes.

On January 26, 2004, subsidiaries in the U.K. entered into a two-year revolving credit facility with Saberasu Japan Investments II B.V. in the Netherlands. The facility provided for up to $45,000 of additional revolving loans available to provide working capital. As of December 31, 2004, the facility remained undrawn. In December 2004, the U.K. subsidiaries gave notice canceling the revolving credit facility effective January 24, 2005.

Since January 15, 2002, the Company has exercised its right to defer payments on the Trust Preferred Securities. The aggregate liquidation amount of the Trust Preferred Securities at December 31, 2004 was $71,177 after completing the equity-for-debt exchange. See Note 7 to the consolidated financial statements for further details of the exchange offer. The previous Senior Credit Facility required the Company to defer the payment of the dividends on the Trust Preferred Securities and, accordingly, no dividends were paid during 2004 or 2003. As of December 31, 2004, the amount of dividends deferred plus accrued interest approximates $23,460. The Company intends to continue to defer payment of the dividends on the Trust Preferred Securities until January 15, 2007—the full term allowed by the underlying agreement. Once the deferred dividend obligation has been satisfied, the Company has the right to defer subsequent dividend payments for an additional 20 consecutive quarters. The new Senior Credit Agreement requires the approval of the lenders to make payments on the Trust Preferred Securities to the extent such payments are not contractually required by the underlying Trust Preferred Securities agreements.

Global Power's European Power subsidiary in Finland is a party to two Euro-denominated performance bond facilities with financial institutions that contain covenants. Obligations under both facilities are guaranteed by Foster Wheeler Ltd. The covenants include (i) a limitation on the amount of dividends to 75% of the subsidiary's annual earnings and (ii) a requirement that the payment of dividends and certain restricted payments be subject to the subsidiary having minimum equity ratios, calculated as equity divided by total assets each as defined in the facilities. In addition, the facilities require the subsidiary to maintain a minimum equity ratio.

One of the performance bond facilities is dedicated to a specific project and, as of December 31, 2004, had performance bonds outstanding equivalent to $24,522 (none of which has been drawn as of such date). Covenants under this facility are tested quarterly. The second facility is a general performance bond facility and, as of December 31, 2004, had performance bonds outstanding in favor of several clients equivalent to $10,114 (none of which has been drawn).

As a result of operating losses at the foreign subsidiary during the second quarter of 2004, the equity of the Company's subsidiary fell below the minimum equity ratios, breaching the covenants contained in the two performance bond facilities. On August 6, 2004 and August 9, 2004, the Company's foreign subsidiary obtained waivers from the financial institutions providing the performance bond facilities.

The waiver for the project-specific performance bond facility requires that the foreign subsidiary make no dividends or other restricted payments, including intercompany loans, debt service on existing intercompany loans, royalties, and management fees, for as long as the foreign subsidiary's equity remains below the minimum equity ratio levels so long as the performance bonds are outstanding. The Company's subsidiary remained below the minimum equity ratio as of December 31, 2004. On March 15, 2005, the bond expired and the banks funded the client and the Company reimbursed the banks. The bond is therefore no longer outstanding. It is the intention of the Company to issue a letter of credit under the new Senior Credit Agreement and thus recover the cash from the client.

The waiver for the general performance bond facility is effective through March 31, 2005. As of that date, approximately $4,900 is forecasted to be outstanding under the facility. The Company has provided a standby letter of credit to back up the general performance bond facility and intends to do so until such facility can be permanently replaced or the last performance bond issued thereunder has expired. Therefore, the Company believes this matter will not have an adverse impact on its forecasted liquidity. The foreign subsidiary's inability to pay dividends and restricted payments because of its failure to remain in compliance with the minimum equity ratio covenant is reflected in the Company's liquidity forecasts.

Management closely monitors liquidity and updates its U.S. liquidity forecasts weekly. These forecasts cover, among other analyses, existing cash balances, cash flows from operations, cash repatriations and loans from non-U.S. subsidiaries, asset sales, collections of receivables and claims recoveries, working capital needs and unused credit line availability. The Company's cash flow forecasts continue to indicate that sufficient cash will be available to fund the Company's U.S. and foreign working capital needs throughout 2005.

As of December 31, 2004, the Company had cash and cash equivalents, short-term investments, and restricted cash totalling $390,186, compared to $430,170 as of December 26, 2003. Of the $390,186 total at December 31, 2004, $319,612 was held by foreign subsidiaries. See Note 2 for additional details on cash and restricted cash balances.

The Company's domestic operating entities are cash flow positive. However they do not generate sufficient cash flow to cover the costs related to the Company's indebtedness, obligations to fund U.S. pension plans, and corporate overhead expenses. Consequently, the Company requires cash distributions from its non-U.S. subsidiaries in the normal course of its operations to meet its U.S. operations' minimum working capital needs and to service its debt. The Company's current 2005 forecast assumes total cash repatriation from its non-U.S. subsidiaries of approximately $107,000 from royalties, management fees, intercompany loans, debt service on intercompany loans, and dividends. In 2004 and 2003, the Company repatriated approximately $77,000 and $100,000, respectively, from its non-U.S. subsidiaries.

There can be no assurance that the forecasted foreign cash repatriation will occur, as the non-U.S. subsidiaries need to keep certain amounts available for working capital purposes, to pay known liabilities, and for other general corporate purposes. Such amounts exceed, and are not directly comparable to, the foreign component of restricted cash previously noted. In addition, certain of the Company's non-U.S. subsidiaries are parties to loan and other agreements with covenants, and are subject to statutory requirements in their jurisdictions of organization that restrict the amount of funds that such subsidiaries may distribute. The repatriation of funds may also subject those funds to taxation. As a result of these factors, the Company may not be able to repatriate and utilize funds held by its non-U.S. subsidiaries in the amount forecasted above.

Commercial operations under a domestic contract retained by the Company in connection with the sales of assets of the Foster Wheeler Environmental Corporation ("Environmental"), as described further in Note 21 to the consolidated financial statements, commenced in January 2004. The plant processes low-level nuclear waste for the U.S. Department of Energy ("DOE"). The Company funded the plant's construction costs and operates the facility. The majority of the Company's invested capital was recovered during the early stages of processing the first stream of waste materials. This project successfully processed all quantities of the first waste stream of materials ahead of schedule and is currently finalizing the processing line for the second waste stream. In 2004, the project generated net cash flow of approximately $53,300. An additional $17,800 of capital recovery is dependent on the initial processing of the second waste stream of materials. This capital recovery is expected in 2005.

The Company's inability to operate profitably and to generate cash flows from operations, its reliance on repatriated cash from its foreign subsidiaries to fund its domestic obligations, and its obligations to maintain minimum debt covenants to avoid possible acceleration of its debt, raises substantial doubt about the Company's ability to continue as a going concern.

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 370 references to lack of consistency, 305 relate to changes made in years prior to 2004. Examples of references to lack of consistency follow.

7.28

TABLE 7-4: LACK OF CONSISTENCY

	2004	2003	2002	2001
Goodwill not amortized	154	358	349	4
Asset retirement obligations	52	54	N/C*	N/C*
Variable interest entities	49	30	N/C*	N/C*
Stock-based compensation	35	36	5	8
Financial instruments with liability & equity characteristics	10	6	N/C*	N/C*
Revenue recognition	9	9	16	36
Derivatives	6	47	63	83
Employee benefits	5	N/C*	N/C*	N/C*
Inventories	5	3	9	4
Exit/disposal activity costs	3	4	N/C*	N/C*
Impairment of long-lived assets	2	14	17	6
Early extinguishment of debt	2	5	N/C*	N/C*
Guarantees	2	1	N/C*	N/C*
Sales incentives	—	5	10	2
Business combinations	—	4	11	N/C*
Other—described	36	17	34	24
Total References	**370**	**593**	**514**	**167**
Total Companies	**239**	**386**	**377**	**133**

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

Goodwill Not Amortized

7.29

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
H. J. Heinz Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of H. J. Heinz Company and its subsidiaries (the "Company") at April 28, 2004 and April 30, 2003, and the results of their operations and their cash flows for each of the three years in the period ended April 28, 2004, 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 the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial 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 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 6 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in conformity with Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," which was adopted as of May 2, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangibles

Intangible assets with finite useful lives are amortized on a straight-line basis over the estimated periods benefited, and are reviewed periodically for possible impairment, similar to property, plant and equipment. Goodwill and intangible assets with indefinite useful lives are not amortized. Prior to 2002, goodwill and intangible assets with indefinite useful lives were amortized over periods not exceeding 40 years. The carrying values of goodwill and other intangible assets with indefinite useful lives are tested at least annually for impairment.

6. Goodwill and Other Intangible Assets

Effective May 2, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. This standard also requires, at a minimum, an annual impairment assessment of the carrying value of goodwill and intangibles with indefinite useful lives. The reassessment of intangible assets, including the ongoing impact of amortization, and the assignment of goodwill to reporting units was completed during the first quarter of Fiscal 2003.

The Company completed its transitional goodwill impairment tests during the second quarter of Fiscal 2003 and, as a result, recorded a transitional impairment charge that was calculated as of May 2, 2002, and recorded as an effect of a change in accounting principle for Fiscal 2003, of $77.8 million. There was no tax effect associated with this charge. The charge, which relates to certain of the Company's reporting units, has been reflected in its segments as follows: Europe $54.6 million, Asia/Pacific $2.7 million, and Other Operating Entities $20.5 million.

The transitional impairment charge resulted from application of the new impairment methodology introduced by SFAS No. 142. Previous accounting rules incorporated a comparison of carrying value to undiscounted cash flows, whereas new rules require a comparison of carrying value to discounted cash flows, which are lower. Under previous requirements, no goodwill impairment would have been recorded on May 2, 2002.

The annual impairment tests are performed in the fourth quarter of each fiscal year unless events suggest an impairment may have occurred in the interim. No impairment charges were recognized in Fiscal 2004.

The effects of adopting the new standards on net income and diluted earnings per share are as follows:

	Net Income			Diluted EPS		
(Thousands of dollars, except per share amounts)	2004	2003	2002	2004	2003	2002
Net income before effect of change in accounting principle	$804,273	$644,097	$833,889	$2.27	$ 1.82	$2.36
Add:						
Goodwill amortization	—	—	53,775	—	—	0.16
Trademark amortization	—	—	8,520	—	—	0.02
Adjusted net income before effect of change in accounting principle	804,273	644,097	896,184	2.27	1.82	2.54
Effect of change in accounting principle	—	(77,812)	—	—	(0.22)	—
Adjusted net income	$804,273	$566,285	$896,184	$2.27	$ 1.60	$2.54

Income from continuing operations for Fiscal 2002 would have been $720.4 million ($45.2 million higher after tax) had the provisions of the new standards been applied as of May 3, 2001.

In the first quarter of Fiscal 2004, the Company changed its segment reporting to reflect changes in organizational structure and management of its businesses (see footnote 16). The Company reallocated the goodwill previously assigned to its Heinz North America and U.S. Frozen segments to the new North American Consumer Products and U.S. Foodservice segments based on the relative fair values of the underlying reporting units as of May 1, 2003.

Changes in the carrying amount of goodwill for the fiscal year ended April 28, 2004, by reportable segment, are as follows:

(Thousands of dollars)	North American Consumer Products	U.S. Foodservice	Europe	Asia/Pacific	Other Operating Entities	Total
Balance at April 30, 2003	$891,608	$164,542	$637,371	$143,201	$12,667	$1,849,389
Acquisition	26,638	14,459	2,968	7,532	6,712	58,309
Purchase accounting reclassifications	1,292	543	(4,957)	—	—	(3,122)
Divestitures	—	—	(11,469)	—	—	(11,469)
Translation adjustments	1,843	—	47,022	14,913	471	64,249
Other	2,558	—	—	—	—	2,558
Balance at April 28, 2004	$923,939	$179,544	$670,935	$165,646	$19,850	$1,959,914

Trademarks and other intangible assets at April 28, 2004 and April 30, 2003, subject to amortization expense, are as follows:

	2004			2003		
(Thousands of dollars)	Gross	Accum Amort	Net	Gross	Accum Amort	Net
Trademarks	$188,927	$ (50,505)	$138,422	$191,832	$ (55,691)	$136,141
Licenses	208,186	(118,504)	89,682	208,186	(112,617)	95,569
Other	123,394	(63,156)	60,238	96,938	(57,610)	39,328
	$520,507	$(232,165)	$288,342	$496,956	$(225,918)	$271,038

Amortization expense for trademarks and other intangible assets subject to amortization was $17.1 million for the fiscal year ended April 28, 2004. Based upon the amortizable intangible assets recorded on the balance sheet as of April 28, 2004, amortization expense for each of the next five fiscal years is estimated to be approximately $17 million.

Intangible assets not subject to amortization at April 28, 2004 and April 30, 2003, were $505.5 million and $473.9 million, respectively, and consisted solely of trademarks.

Asset Retirement Obligations

7.30

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
National Semiconductor Corporation

We have audited the accompanying consolidated balance sheets of National Semiconductor Corporation and subsidiaries (the Company) as of May 30, 2004 and May 25, 2003, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended May 30, 2004. 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 National Semiconductor Corporation and subsidiaries as of May 30, 2004 and May 25, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended May 30, 2004 in conformity with U.S. generally accepted accounting principles.

As described in notes 1 and 7 to the consolidated financial statements, the Company recorded the cumulative effect of a change in accounting principle in connection with its adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," as of the beginning of fiscal 2004.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements (In Part)

At the beginning of fiscal 2004, we adopted SFAS No. 143, "Accounting for 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 impact from the adoption of this statement is discussed in Note 7 to the Consolidated Financial Statements.

Note 7. Asset Retirement Obligations

We adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," at the beginning of fiscal 2004. This statement requires that the fair value of a legal liability for an asset retirement obligation be recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. Our asset retirement obligations arise primarily from contractual commitments to decontaminate machinery and equipment used at our manufacturing facilities at the time we dispose of or replace them. We also have leased facilities where we have asset retirement obligations from contractual commitments to remove leasehold improvements and return the property to a specified condition when the lease terminates. As a result of our evaluation of our asset retirement obligations, we recorded a $2.1 million noncurrent liability for asset retirement obligations and a $0.4 million increase in the carrying value of the related assets, net of $1.0 million of accumulated depreciation at the beginning of fiscal 2004. The cumulative effect that was recorded in the first quarter of fiscal 2004 upon the adoption of this accounting standard resulted in a charge of $1.9 million, including a tax effect of $0.2 million.

We did not recognize any asset retirement obligations associated with the closure or abandonment of the manufacturing facilities we own. We currently intend to operate these facilities indefinitely and are therefore unable to reasonably estimate the fair value of any legal obligations we may have because of the indeterminate closure dates.

The following table presents the activity for the asset retirement obligations for the year ended May 30, 2004:

(In millions)	
Balance at beginning of fiscal 2004	$2.1
Liability incurred for assets acquired	0.2
Accretion expense	0.2
Ending balance	$2.5

The following table presents net income (loss) and earnings (loss) per share for fiscal 2004, 2003 and 2002 as if the provisions of SFAS No. 143 had been applied at the beginning of fiscal 2002:

(In millions, except per share amounts)	2004	2003	2002
Net income (loss), as reported	$282.8	$(33.3)	$(121.9)
Add back:			
Cumulative effect of a change in accounting principle including tax effect of $0.2 million	1.9	—	—
Deduct:			
Accretion and depreciation in fiscal 2003 and 2002, net of tax	—	0.2	0.2
Net income (loss), as adjusted	$284.7	$(33.5)	$(122.1)
Net income (loss) per share, as adjusted:			
Basic	$ 0.79	$(0.09)	$ (0.34)
Diluted	$ 0.73	$(0.09)	$ (0.34)

Variable Interest Entities

7.31

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Herman Miller, Inc.

We have audited the accompanying consolidated balance sheets of Herman Miller, Inc. and subsidiaries as of May 29, 2004 and May 31, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended May 29, 2004. 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 Herman Miller, Inc. and subsidiaries at May 29, 2004 and May 31, 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 29, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the company on May 29, 2004 adopted FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities," on June 1, 2003 changed its method of accounting for certain domestic inventories, and in fiscal 2003 changed its method of accounting for goodwill.

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.

Change in Accounting Principle (In Part)

The company adopted FIN 46(R), which was recognized as a cumulative effect of a change in accounting principle as of May 29, 2004. Refer to Note 4, Variable Interest Entities, for further discussion.

New Accounting Standards (In Part)

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46(R)). This rule requires that companies consolidate a variable interest entity if the company is deemed the primary beneficiary subject to a majority of the risk of loss from the variable interest entity's activities; or is entitled to receive a majority of the entity's residual returns, or both. The company has no special purpose entities, as defined, nor has it acquired a variable interest in an entity where the company is the primary beneficiary since January 31, 2003. The provisions of FIN 46(R) are required to be applied as of the end of the first reporting period that ends after March 15,2004, for the variable interest entities in which the company holds a variable interest that it acquired on or before January 31, 2003. The company adopted FIN 46(R) at end of the fourth quarter of fiscal 2004. Refer to Note 4, Variable Interest Entities, for further discussion.

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 is 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. 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 of May 29, 2004. As permitted under FIN 46(R), prior periods were not restated.

Due to the company's history of providing on-going subordinated financial support to these dealerships, through consolidation the company absorbs all net losses of the variable interest entities in excess of the equity at the dealerships. The company recognizes all net earnings of these variable interest entities to the extent of recouping the company's losses. Earnings in excess of the company's losses are attributed to equity owners of the dealerships and shown as minority interest on the company's financial statements.

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 other than the cumulative effect adjustment. In the future, the company will include the results of operations of the VIEs in its Consolidated Statement of Operations.

The impact of consolidating the VIEs on the company's Consolidated Balance Sheet at May 29, 2004, was an increase in the company's assets and liabilities of approximately $2.0 million and $2.6 million, respectively. 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.

7.32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
La-Z-Boy Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity, including pages 28 through 44, present fairly, in all-material respects, the financial position of La-Z-Boy Incorporated and its subsidiaries at April 24, 2004 and April 26, 2003 and the results of their operations and their cash flows for each of the three fiscal years in the period ended April 24, 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 assurance about whether the financial statements, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 20 to the consolidated financial statements, on April 24, 2004, the company adopted Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities." As discussed in Notes 1 and 2 to the consolidated financial statements, the company changed its method of accounting for goodwill and trade names effective April 28, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of La-Z-Boy Incorporated and its majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Additionally, we adopted Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), as of April 24, 2004, which resulted in the consolidation of several of our independently owned La-Z-Boy Furniture Galleries® dealers. Refer to Note 20 and New Pronouncements for further discussion of FIN 46.

New Pronouncements (In Part)

FIN 46, which was issued in December 2003, requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. FIN 46 also requires the disclosure of information about the VIE's assets and liabilities and the nature, purpose and activities of consolidated VIEs in its financial statements. Additionally, FIN 46 requires disclosure of information about the nature, purpose and activities for unconsolidated VIEs in which a company holds a significant variable interest. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support; (ii) has a group of equity owners that are unable to make significant decisions about its activities; or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

We have adopted the provisions of FIN 46 as of April 24, 2004, which resulted in the consolidation of several VIEs. Refer to Note 20 for further discussion.

Note 20: Variable Interest Entities

Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), which was issued in December 2003, requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support; (ii) has a group of equity owners that are unable to make significant decisions about its activities; or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

La-Z-Boy Furniture Galleries® stores that are not owned by us are owned by over 120 independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased through approved La-Z-Boy vendors. In some cases, we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support; however, there are certain independent dealers that we have determined do not have sufficient equity. Based on the new criteria for consolidation of VIEs, we have determined that several dealers are VIEs of which, under FIN 46, we are deemed the primary beneficiary and, accordingly, have included them in our consolidated financial statements as of April 24, 2004. Additionally, there are certain independent dealers that qualify as VIEs; however, we are not the primary beneficiary. Our interest in these dealers is comprised of accounts and notes receivable of $15.0 million.

In prior years, we have evaluated the collectibility of our trade accounts receivable from our independent dealers and we have provided an appropriate reserve relating to the collectibility of our receivables with these dealers or the contingent payout under any guarantees. The following table shows the impact of this new standard on our consolidated balance sheet. The changes reflected in the table include the elimination of related payables and receivables as well as the profit in inventory. The shareholders' equity change reflects the cumulative effect of the accounting change. The cumulative effect charge has been reduced by the allowance for doubtful accounts related to the consolidated dealers.

The following table summarizes the balance sheet effect of consolidating the VIEs that we are the primary beneficiary of as of April 24, 2004:

(Amounts in thousands)	VIEs	Consolidated
Assets		
Cash and cash equivalents	$ 3,944	$ 33,882
Accounts receivable, net	(21,826)*	299,801
Inventories, net	12,721	250,568
Deferred income taxes	5,101	37,969
Other current assets	1,951	31,454
Total current assets	1,891	653,674
Property, plant and equipment, net	7,264	212,739
Intangibles	7,714	96,005
Other long-term assets	(12,484)*	85,078
Total assets	$ 4,385	$1,047,496
Liabilities and shareholders' equity		
Short-term borrowings	$ —	$ 37,219
Current portion of long-term debt and capital leases	255	5,344
Accounts payable	758	93,298
Other current liabilities	4,190	147,460
Total current liabilities	5,203	283,321
Long-term debt and capital leases	7,211	181,807
Deferred income taxes	—	20,219
Other long-term liabilities	295	39,821
Shareholders' equity (deficit)	(8,324)	522,328
Total liabilities and shareholders' equity	$ 4,385	$1,047,496

* Reflects the elimination of intercompany accounts and notes receivable.

Stock-Based Compensation

7.33

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Applied Industrial Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Applied Industrial Technologies, Inc. and its subsidiaries (the "Company") as of June 30, 2004 and 2003, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. 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 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 the Company at June 30, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 9 to the consolidated financial statements, effective July 1, 2003, the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

As discussed in Note 1 to the consolidated financial statements, effective July 1, 2001, the Company changed its method of accounting for goodwill as a result of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

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

Note 1 (In Part): Accounting Policies

Stock-Based Compensation

At June 30, 2004, the Company had outstanding stock options and other stock-based awards (see Note 9). Effective July 1, 2003, the Company adopted for stock options the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation" as amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," using the modified prospective method for the transition. Under the modified prospective method, stock-based compensation cost recognized during this fiscal year for stock options is the same as that which would have been recognized had the fair value recognition provisions been applied to all stock option awards granted after July 1, 1995. Results for prior years have not been restated. The compensation expense for stock options recorded during the year ended June 30, 2004 was $1,586, $1,074 net of tax, or $0.05 per share. The Company also records expense for other stock-based compensation, including restricted stock awards, ratably over the vesting period based upon the aggregate fair market value at the date of grant. The following table discloses the compensation expense and net income as if the fair value based method had been applied for stock options in each period:

	2004	2003	2002
Net Income, as reported	$31,471	$19,832	$ 2,655
Plus:			
Stock option compensation expense included in reported net income, net of tax	1,074		
Restricted stock compensation expense included in reported net income, net of tax	163	460	508
Less:			
Total stock-based employee compensation expense determined under fair value based method, net of tax	(1,237)	(1,710)	(1,829)
Pro forma net income	$31,471	$18,582	$ 1,334
Earnings per share:			
Basic—as reported	$ 1.64	$ 1.05	$ .14
Basic—pro forma	1.64	.98	.07
Diluted—as reported	$ 1.60	$ 1.03	$ .13
Diluted—pro forma	1.60	.97	.07

Compensation expense for stock options has been determined using the Black Scholes option pricing model. The weighted average assumptions used for stock option grants issued in 2004, 2003 and 2002 are:

	2004	2003	2002
Expected life	7.3 years	7.0 years	7.0 years
Risk free interest rate	3.8%	3.9%	4.9%
Dividend yield	2.9%	3.0%	3.0%
Volatility	31.7%	30.9%	29.1%

Note 9 (In Part): Shareholders' Equity

Stock Incentive Plans

The 1997 Long-Term Performance Plan (the "1997 Plan") provides for granting of stock options, stock awards, cash awards, and such other awards or combination thereof as the Executive Organization and Compensation Committee of the Board of Directors may determine. The number of shares of common stock which may be awarded in each fiscal year under the 1997 Plan is two percent (2%) of the total number of shares of common stock outstanding on the first day of each year for which the plan is in effect. Common stock available for distribution under the 1997 Plan, but not distributed, may be carried over to the following year. Shares available for future grants at June 30, 2004 and 2003 were 168,000 and 142,000, respectively.

Under the 1997 Plan, the Company has awarded restricted stock and/or stock options to officers, other key associates and members of the Board of Directors. Restricted stock award recipients are entitled to receive dividends on, and have voting rights with respect to their respective shares, but are restricted from selling or transferring the shares prior to vesting. Restricted stock awards generally vest 25% each year. The aggregate fair market value of the restricted stock is considered unearned compensation at the time of grant and is amortized over the vesting period or until such time as acceleration of vesting takes place.

At June 30, 2004, the Company had outstanding stock options granted under the 1997 Plan. In general, the stock options vest over a period of 4 years and expire after 10 years. Effective July 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensations" as amended by SFAS 148, "Accounting for Stock-Based Compensation and Disclosure" using the modified prospective method for transition (see Note 1). Prior to fiscal 2004, the Company accounted for stock options under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Information regarding these option plans is as follows:

	2004		2003		2002	
(Share amounts in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,474	$16.89	2,199	$16.80	2,124	$16.10
Granted	320	21.76	522	15.67	401	17.86
Exercised	(436)	16.00	(219)	13.01	(226)	11.57
Expired/canceled	(23)	18.53	(28)	17.94	(100)	17.82
Outstanding June 30	2,335	17.70	2,474	16.89	2,199	16.80
Options exercisable June 30	1,519	$17.41	1,460	$16.92	1,322	$16.25
Weighted-average fair value of options granted during the year		$ 6.21		$ 4.26		$ 4.65

The following table summarizes information about stock options outstanding at June 30, 2004:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (In Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$13–$17	1,060	5.8	$15.55	727	$15.48
17–21	929	5.4	18.48	717	18.52
21–25	315	9.2	21.77	44	24.52
25–29	31	3.5	26.93	31	26.93
Total	2,335			1,519	

At June 30, 2004, exercise prices for outstanding options ranged from $13.16 to $27.03 per share.

7.34

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Computer Associates International, Inc.

We have audited the accompanying consolidated balance sheets of Computer Associates International, Inc. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2004. Our audits also included the financial statement schedule as of and for the years ended March 31, 2004, 2003, and 2002 listed in the Index at Item 15(d). 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 Computer Associates International, Inc. and subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2003, the Company adopted the fair value method of accounting provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of SFAS 123."

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Accounting for Stock-Based Compensation

Prior to fiscal year 2004, the Company accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations. Under APB Opinion 25, the difference between the quoted market prices as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period, and no compensation expense was recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant and shares acquired by employees under the Company's stock purchase plans. Beginning in fiscal year 2004, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." The Company selected the prospective method to transition to the fair value method of measuring stock-based compensation expense. Under the fair value based method, the Company charges the value of all newly granted stock-based compensation to expense over the vesting period based on the computed fair value at the date of grant. Pro forma net loss and net loss per share disclosures, as if the Company recorded compensation expense based on the fair value for stock-based awards for all periods presented, have been presented in accordance with the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," and are as follows for the years ended March 31, 2004, 2003, and 2002 (See Note 9 for additional information regarding stock plans):

(In millions, except per share amounts)	2004	2003	2002
Net income (loss) as reported	$ 25	$ (267)	$(1,102)
Add: Stock-based employee compensation expense, net of tax, included in net income (loss)	8	1	2
Less: Stock-based employee compensation expense, net of tax, determined under the fair value based method for all awards	(78)	(94)	(85)
Pro forma net loss	$ (45)	$ (360)	$(1,185)
Basic earnings (loss) per share			
As reported	$ 0.04	$(0.46)	$ (1.91)
Pro forma	(0.08)	(0.63)	(2.05)
Diluted earnings (loss) per share			
As reported	$ 0.04	$(0.46)	$ (1.91)
Pro forma	(0.08)	(0.63)	(2.05)

The compensation expense and pro forma net loss may not be indicative of amounts to be included in future periods.

The weighted-average fair value at date of grant for options granted in fiscal years 2004, 2003, and 2002 was $14.60, $8.23, and $13.48, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions that were used for option grants in the respective periods are as follows:

	2004	2003	2002
Dividend yield	.30%	.56%	.37%
Expected volatility factor	.67	.67	.65
Risk-free interest rate	3.0%	3.2%	4.9%
Expected life (in years)	4.5	6.0	6.0

In fiscal year 2004, the expected life (in years) was 4.5, which is lower than the expected life used in prior year computations due to a reduction in the average vesting period.

The weighted-average fair value of the Year 2000 Employee Stock Purchase Plan (the Purchase Plan) shares for offering periods commencing in fiscal years 2004, 2003, and 2002 was $7.28, $4.94, and $11.76, respectively. The fair value is estimated on the first date of the offering period using the Black-Scholes option pricing model. The weighted-average assumptions that were used for the Purchase Plan shares in the respective periods are as follows:

	2004	2003	2002
Dividend yield	.33%	.56%	.22%
Expected volatility factor	.53	.70	.65
Risk-free interest rate	1.0%	1.5%	2.7%
Expected life (in years)	.5	.5	.5

Note 9 (In Part): Stock Plans

Effective April 1, 2003, the Company began charging to expense the computed value of all newly granted stock-based employee compensation over the vesting period. The computed fair value at the date of grant is calculated using the fair value based methodology under SFAS No. 123, as amended by SFAS No. 148. See Note 1 "Accounting for Stock-Based Compensation" for additional information.

The Company's 1991 Stock Incentive Plan (the 1991 Plan) provided that stock appreciation rights and/or options, both qualified and non-statutory, to purchase up to 67.5 million shares of common stock of the Company could be granted to employees (including officers of the Company). Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after five years. All options expire 10 years from the date of grant unless otherwise terminated. As of March 31, 2004, no stock appreciation rights were granted under this plan and 70.9 million options have been granted, including options issued that were previously terminated due to employee forfeitures. As of March 31, 2004, 17.1 million of the 22.2 million options which were outstanding under the 1991 Plan were exercisable. These options are exercisable at $9.07–$74.69 per share.

The 1993 Stock Option Plan for Non-Employee Directors (the 1993 Plan) provided for nonstatutory options to purchase up to a total of 337,500 shares of common stock of the Company to be available for grant to each member of the Board of Directors who is not otherwise an employee of the Company. Pursuant to the 1993 Plan, the exercise price shall be the fair market value (FMV) of the shares covered by the option at the date of grant. The option period shall not exceed 10 years, and each option may be exercised in whole or in part on the first anniversary date of its grant. As of March 31, 2004, 222,750 options have been granted under this plan. As of March 31, 2004, all of the 13,500 options which are outstanding under the 1993 Plan are exercisable. These options are exercisable at $32.38–$51.44 per share.

The 2001 Stock Option Plan (the 2001 Plan) was effective as of July 1, 2001. The 2001 Plan provides that nonstatutory and incentive stock options to purchase up to 7.5 million shares of common stock of the Company may be granted to select employees and consultants. All options expire 10 years from the date of grant unless otherwise terminated. As of March 31, 2004, 6.5 million options have been granted. These options are exercisable in annual increments commencing one year after the date of grant and become fully exercisable after three years. As of March 31, 2004, 3.3 million of the 5.6 million options outstanding are exercisable. These options are exercisable at $21.89–$26.27 per share.

The 2002 Incentive Plan (the 2002 Plan) was effective as of April 1, 2002. The 2002 Plan provides that annual performance bonuses, long-term performance bonuses, stock options, both non-qualified and incentive, restricted stock, and other equity-based awards to purchase up to 45 million shares of common stock of the Company may be granted to select employees and consultants. In addition, any shares of common stock that were subject to issuance but not awarded under the 2001 Plan are available for issuance under the 2002 Plan. As of March 31, 2004, 1.8 million of such shares were available for future issuance. All options expire 10 years from the date of grant unless otherwise terminated. Options cannot be repriced pursuant to the provisions of the 2002 Plan. As of March 31, 2004, options covering 12.9 million shares have been granted under the 2002 Plan. These options are generally exercisable in annual increments commencing one year after the date of grant and become fully exercisable after three years. As of March 31, 2004, 2.0 million of the 12.5 million options outstanding are exercisable. These options are exercisable at $12.89–$31.50 per share. As of March 31, 2004, 626,800 restricted shares have been awarded to certain executive officers. These shares are subject to vesting based upon the participant's continued employment. The value of this award, net of anticipated forfeitures, is $8.3 million and will be recognized as expense over the three-year vesting period.

The 2002 Compensation Plan for Non-Employee Directors (the 2002 Director Plan) was effective as of July 1, 2002. The 2002 Director Plan provides for each director to receive annual director fees in the form of deferred shares and automatic grants to purchase 6,750 shares of common stock of the Company, up to a total of 650,000 shares to be granted to eligible directors. Pursuant to the 2002 Director Plan, the exercise price shall be the FMV of a share as of the date of grant. The option period shall not exceed 10 years, and each option may be exercised in whole or in part on the day before the next succeeding annual meeting. As of March 31, 2004, all of the 48,375 options outstanding under the 2002 Director Plan were exercisable. These options are exercisable at $11.04–$23.37 per share. As of March 31, 2004, a total of 29,019 deferred shares are outstanding in connection with annual director fees.

The 2003 Compensation Plan for Non-Employee Directors (the 2003 Director Plan) was effective as of August 27, 2003. The 2003 Director Plan provides for each director to receive annual director fees of $150,000 in the form of deferred shares with an option to elect to receive up to 50% in cash. As of March 31, 2004, a total of 21,517 deferred shares are outstanding in connection with annual director fees under the 2003 Director Plan.

As of March 31, 2004, all of the options covering 3.5 million shares of common stock were outstanding related to acquired companies' stock plans and are exercisable at $5.41–$51.17 per share. Options granted under these acquired companies' plans become exercisable over periods ranging from one to five years and expire 10 years from the date of grant.

The following table summarizes the activity under these plans:

	2004		2003		2002	
(Shares in millions)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of year	48.2	$28.74	46.9	$28.83	48.5	$28.71
Granted	6.4	27.68	8.6	16.06	4.5	21.90
Exercised	(3.9)	14.57	(5.3)	5.82	(3.2)	12.40
Terminated	(6.9)	36.49	(2.0)	33.06	(2.9)	32.88
End of year	43.8	$28.63	48.2	$28.74	46.9	$28.83
Options exercisable at end of year	26.0	$30.88	26.9	$31.19	25.5	$24.77

The Company has historically granted options at an exercise price equivalent to the FMV at the date of grant, except that in the fiscal years ended March 31, 2004 and 2003, approximately 1 million and 2 million shares, respectively, were granted to senior management at an exercise price greater than the FMV on the date of grant.

The following table summarizes information about these plans as of March 31, 2004:

(Shares in millions)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 5.41–20.00	8.4	6.8 years	$15.02	4.4	$16.13
20.01–30.00	23.0	6.8 years	25.83	11.2	25.41
30.01–40.00	5.8	4.4 years	35.15	5.0	35.85
40.01–50.00	2.7	3.5 years	46.91	2.7	46.91
50.01–74.69	3.9	5.3 years	51.98	2.7	52.10
	43.8			26.0	

Financial Instruments With Liability and Equity Characteristics

7.35

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Sara Lee Corporation

In our opinion, the accompanying consolidated balance sheets as of July 3, 2004, June 28, 2003 and June 29, 2002 and the related consolidated statements of income, common stockholders' equity and cash flows for the years then ended present fairly, in all material respects, the financial position of Sara Lee Corporation and its subsidiaries as of July 3, 2004, June 28, 2003 and June 29, 2002, and the results of their operations and their cash flows for the years then ended 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 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 disclosed in Note 2 to the consolidated financial statements, the Company adopted the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities."

As disclosed in Note 7 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 7: Minority Interest in Subsidiaries

Minority interest in subsidiaries in 2004 consists of the equity interest of minority investors in consolidated subsidiaries of the corporation. In 2003 and 2002, minority interest also included preferred equity securities issued by subsidiaries of the corporation. The corporation's consolidated minority interest expense of $4 in 2004, $19 in 2003 and $33 in 2002 is recorded in "Selling, general and administrative expenses."

On the first day of 2004, the provisions of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150) became effective for the corporation. Under the provisions of that document, $295 of preferred equity securities were reclassified from "Minority interest in subsidiaries" to the "Current maturities of long-term debt" on the Consolidated Balance Sheet. These securities were outstanding in 2003 and 2002 and included in "Minority interest in subsidiaries." These preferred equity securities were issued by a wholly owned foreign subsidiary of the corporation. The securities provided a rate of return based upon the Euribor interbank borrowing rate, which averaged 3.3% and 4.0% in 2003 and 2002, respectively. The provisions of SFAS No. 150 prohibit the restatement of financial statements for periods prior to the effective date of the statement.

During 2003, the preferred equity securities issued by a domestic subsidiary were redeemed by the corporation for $250. These securities were outstanding in 2002 and had a carrying value of $250. The securities provided the holder a rate of return based upon the LIBOR interest rate plus 0.425%. The average LIBOR borrowing rates in 2003 and 2002 were 2.0% and 2.9%, respectively.

No gain or loss was recognized as a result of the issuance of either of these preferred equity securities, and the corporation owned substantially all of the voting equity of the subsidiaries both before and after the transactions.

Employee Benefit Plans

7.36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sears, Roebuck and Co.

We have audited the accompanying consolidated balance sheets of Sears, Roebuck and Co. (the "Company") as of January 1, 2005 and January 3, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 1, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited management's assessment, included in the accompanying Management's Report, that the Company maintained effective internal control over financial reporting as of January 1, 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 these financial statements and financial statement schedule, 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 these financial statements and financial statement schedule, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included 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. Our audit of internal control over financial reporting 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 audits provide 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 of 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 1, 2005 and January 3, 2004, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 1, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on the criteria established in Internal Control—Intergrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002 and domestic pension and postretirement plans in 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Defined Benefit Plans

For defined benefit plans, prior to 2004, the Company recognized changes in plan obligations and assets systematically over time. This systematic recognition of changes was accomplished by amortizing experience gains/losses in excess of the 10% corridor into expense over the estimated associate service period. For 2004, the Company changed its method of accounting for its domestic defined benefit plans to accelerate recognition of experience gains and losses. See Note 9 for a discussion of the fiscal year 2004 accounting change.

Note 9 (In Part): Benefit Plans

Accounting Change (In Part)

Subsequent to the sale of its domestic Credit and Financial Products business, the Company initiated a project to review its domestic employee retirement benefits cost structure and programs. The Company assessed its retirement benefits programs in the context of comparable programs in the retail industry. As a result of this review, in January 2004, the Company announced a series of benefit plan changes which included the enhancement of the Company's 401 (k) defined contribution plan and the phasing out of participation in its domestic pension plan. Associates hired in 2004 and those under the age of 40 as of December 31, 2004, will receive an increased Company-matching contribution to the 401(k) plan of 110%, but will no longer earn additional pension benefits effective January 1, 2005. Pension benefits continue to accrue for associates age 40 and older as of December 31, 2004, unless they elected to participate in the enhanced 401(k) defined contribution plan.

In addition, the Company eliminated its retiree medical insurance contribution for associates hired in 2004 and those under the age of 40 as of December 31, 2004, and capped the contribution at the 2004 level for associates age 40 and older. A curtailment gain of $30 million is included in selling and administrative costs as a result of the change in the domestic retiree medical benefit.

In connection with the domestic pension and postretirement plan changes discussed above, the Company believed it was preferable to change its accounting methods, which under SFAS No. 87 and 106 delay recognition of past events. Therefore, in the first quarter of 2004 the Company changed its method for determining the market-related value of plan assets used in determining the expected return-on-assets component of annual net pension costs and its method for recognizing gains and losses for both its domestic pension and postretirement benefit plans. Under the previous accounting method, the market-related value of the domestic pension plan assets was determined by averaging the value of equity assets over a five-year period. The new method recognizes equity assets at fair value. Further, under its previous accounting method, all unrecognized gains and losses in excess of the 10 percent corridor were amortized over the expected working lifetime of active employees (approximately 10 years). Under the new methodology, the portion of the total gain or loss outside the 10 percent corridor will be immediately recognized. As a result of this accounting change, the Company recorded an after-tax charge of $839 million in the first quarter of 2004 for the cumulative effect of the change in accounting. The charge represents the recognition of unamortized experience losses at the beginning of 2004 in accordance with the new methods.

The cumulative effect of the accounting changes related to fiscal 2004 is presented in the following table:

	2004	
(Millions, except per share data)	Pretax	After-Tax
Domestic pension	$1,574	$ 999
Domestic postretirement	(253)	(160)
Total	$1,321	$ 839
Diluted loss per share		$(3.87)

Presented below is pro forma net income and earnings per share for the year ended January 3, 2004 and December 28, 2002 showing the estimated effects as if the accounting change were applied retroactively:

(Millions, except per share data)	2003	2002
Net income—as reported	$3,397	$1,376
Income before cumulative effect of change in accounting principle	—	1,584
Impact of change in accounting for domestic retirement plans, net of taxes	(341)	(409)
Net income—pro forma	$3,056	$ 967
Income before cumulative effect of change in accounting principle—pro forma	$3,056	$1,175
Earnings per share—basic:		
As reported	$11.95	$ 4.34
Pro forma	10.75	3.05
Earnings per share—diluted:		
As reported	$11.86	$ 4.29
Pro forma	10.67	3.02
Earnings per share before cumulative effect of change in accounting principle—basic:		
As reported	$11.95	$ 4.99
Pro forma	10.75	3.70
Earnings per share before cumulative effect of change in accounting principle—diluted:		
As reported	$11.86	$ 4.94
Pro forma	10.67	3.02

The Company uses October 31 as the measurement date for determining retirement plan assets, obligations and experience gains or losses. Under the new accounting method for domestic plans, the Company will recognize the portion of experience gain or loss in excess of the 10% corridor at the measurement date, which falls in the fourth quarter of the fiscal year.

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Inventories

7.37

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Milacron Inc.

We have audited the accompanying Consolidated Balance Sheets of Milacron Inc. and subsidiaries as of December 31, 2004 and 2003, and the related Consolidated Statements of Operations, Comprehensive Income and Shareholders' Equity (Deficit), and Cash Flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15 (c). 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 Milacron Inc. and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 under the heading "Change in Method of Accounting" in the notes to the consolidated financial statements, in 2004, the Company changed its method of accounting for certain U.S. plastics machinery inventories from LIFO to FIFO. Also as discussed under the heading "Change in Method of Accounting" in the notes to the consolidated financial statements, in 2002, the company changed its method of accounting for goodwill and other intangible assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Changes in Methods of Accounting (In Part)

In the fourth quarter of 2004, the company elected to change its method of accounting for certain U.S. plastics machinery inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method, retroactive to the beginning of the year. The Consolidated Financial Statements for all prior years have been restated to conform to the 2004 presentation. The effect of the restatement was to decrease the net loss for 2003 by $.8 million, or $.02 per share, increase the net loss for 2002 by $.3 million, or $.01 per share, and decrease the accumulated deficit as of December 31, 2003 by $10.3 million.

The company believes that the FIFO method is preferable because it results in a more meaningful and understandable presentation of financial position to users of the company's financial statements. The change also conforms the accounting for all of the company's inventories to a single method, which is also used by a large number of its competitors. Moreover, cost increases have not been significant in recent years and significant cost increases are not expected in the future. The FIFO method also results in improved reporting of operating cash flows by eliminating the non-cash effects of the LIFO method and will result in improved interim financial reporting by eliminating the need to estimate the effects of the LIFO method.

EMPHASIS OF A MATTER

7.38 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.

7.39 The auditors' reports for 19 survey companies included explanatory information emphasizing a matter regarding the financial statements. Examples of such explanatory information follow.

7.40

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Comdisco Holding Company, Inc.

We have audited the accompanying consolidated balance sheets of Comdisco Holding Company, Inc. and subsidiaries (the Successor) as of September 30, 2004 and September 30, 2003, and the related consolidated statements of earnings (loss), stockholders' equity, and cash flows for the years ended September 30, 2004 and September 30, 2003 and the period from August 1, 2002 to September 30, 2002, and the consolidated statements of earnings (loss), stockholders' equity, and cash flows of Comdisco, Inc. and subsidiaries (the Predecessor) for the period from October 1, 2001 to July 31, 2002. These consolidated financial statements are the responsibility of the Successor's and Predecessor'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.

As discussed in note 1 to the consolidated financial statements, on July 16, 2001 the Predecessor and fifty of its domestic U.S. subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code from which it emerged on August 12, 2002. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with AICPA Statement of Position 90-7, "Financial Reporting for Entities in Reorganization Under the Bankruptcy Code," for the Successor as a new entity with assets, liabilities, and a capital structure having carrying values not comparable with prior periods as described in note 2.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Comdisco Holding Company, Inc. and subsidiaries as of September 30, 2004 and 2003, the results of their operations and cash flows for the years ended, September 30, 2004 and 2003 and the period from August 1, 2002 to September 30, 2002, and the results of operations and cash flows of Comdisco, Inc. and subsidiaries for the period from October 1, 2001 to July 31, 2002, in conformity with U.S. generally accepted accounting principles.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Reorganization

On July 16, 2001, Comdisco, Inc. ("Predecessor") and 50 of its domestic subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court (consolidated case number 01-24795) (the "Filing"). Comdisco Holding Company, Inc., as the successor company ("Successor") to Comdisco, Inc., emerged from bankruptcy under a confirmed plan of reorganization (the First Amended Joint Plan of Reorganization (the "Plan")) that became effective on August 12, 2002 (the "Effective Date"). For financial reporting purposes only, however, the effective date for implementation of fresh-start reporting was July 31, 2002.

Implementation of the Plan resulted in the reorganization of Comdisco, Inc. and its domestic and foreign subsidiaries into Comdisco Holding Company, Inc. and three new primary subsidiaries: (i) Comdisco Global Holding Company, Inc. (a direct wholly-owned subsidiary of Comdisco Holding Company, Inc.), which managed the sale and run-off of the Company's reorganized European IT Leasing operations and assets; (ii) Comdisco, Inc. (a direct wholly-owned subsidiary of Comdisco Holding Company, Inc.), which managed the sale and run-off of the Company's reorganized US Leasing operations and assets; and (iii) Comdisco Ventures, Inc. (a direct wholly-owned subsidiary of Comdisco, Inc.), which managed the sale and run-off of the Company's venture financing operations and assets ("Ventures"). The Company's Corporate Asset Management group ("CAM") was responsible for the sale and run-off of certain assets held by Comdisco Global Holding Company, Inc., Comdisco, Inc. and their subsidiaries that remained after certain pre-emergence bankruptcy asset sales. The CAM group's operations were managed through Comdisco, Inc. Implementation of the Plan also resulted in the reorganization of Prism Communication Services, Inc. and its subsidiaries ("Prism"); as a consequence, Prism is now a direct wholly-owned subsidiary of Comdisco Domestic Holding Company, Inc., which was a direct wholly-owned subsidiary of Comdisco, Inc. The assets of the Prism entities have been liquidated and the proceeds realized from such liquidation were distributed to creditors of Prism in accordance with the Plan and the estate was closed.

Comdisco Holding Company, Inc. was formed on August 8, 2002 for the purpose of selling, collecting or otherwise reducing to money in an orderly manner the remaining assets of the Company and all of its direct and indirect subsidiaries, including Comdisco, Inc. As more fully described in the Plan, the Company's business purpose is limited to the orderly sale or run-off of all its remaining assets. Pursuant to the Plan and restrictions contained in its certificate of incorporation, the Company is specifically prohibited from engaging in any business activities inconsistent with its limited business purpose. Prior to the bankruptcy, Comdisco, Inc. provided technology services worldwide to help its customers maximize technology functionality, predictability and availability, while freeing them from the complexity of managing their technology. Comdisco, Inc. offered leasing to key vertical industries, including semiconductor manufacturing and electronic assembly, healthcare, telecommunication, pharmaceutical, biotechnology and manufacturing. Through its Comdisco Ventures group, Comdisco, Inc. provided equipment leasing and other financing and services to venture capital-backed companies.

Consummation of the Plan resulted in (i) the distribution of cash totaling approximately \$2.2 billion; (ii) the issuance of variable rate senior secured notes due 2004 in aggregate principal amount of \$400 million (the "Senior Notes"); (iii) the issuance of 11% subordinated secured notes due 2005 in aggregate principal amount of \$650 million (the "Subordinated Notes"); (iv) the issuance of 4.2 million shares of new common stock ("Common Stock"); (v) the issuance of contingent distribution rights (the "CDRs") to holders of the Predecessor company's common stock; and (vi) the cancellation of the Predecessor company's notes, notes payable, common stock and stock options.

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

Basis of Presentation

In this annual report on Form 10-K, references to "the Company," "Comdisco Holding," "we," "us" and "our" mean Comdisco Holding Company, Inc., its consolidated subsidiaries, including Comdisco Global Holding Company, Inc., Comdisco, Inc., Comdisco Domestic Holding Company, Inc. and Comdisco Ventures, Inc., and its predecessors, except in each case where the context indicates otherwise. References to "Comdisco, Inc." mean Comdisco, Inc. and its subsidiaries, other than the Prism entities, prior to the Company's emergence from bankruptcy on August 12, 2002, except where the context indicates otherwise.

Due to the Company's reorganization and implementation of fresh-start reporting, the consolidated financial statements for the Successor company are not comparable to those of the Predecessor company.

A black line has been drawn on the accompanying consolidated financial statements to distinguish between the Successor company and the Predecessor company.

Property, Plant and Equipment

As result of fresh-start reporting adjustments, $27 million of excess fair value of net assets over reorganization value was allocated as a reduction to property, plant and equipment in accordance with AICPA Statement of Position ("SOP") 90-7 and Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." Accordingly, the net book value of property, plant and equipment as of September 30, 2004 and September 30, 2003 was zero.

The Company completed the sale of two of its five properties, including its former headquarters, in September 2003. The Company completed the sale of its Carlstadt property in November 2003 for approximately $2.2 million. The Company completed the sale of its former Availability Solutions facility in Eching, Germany in March 2004 for approximately $2.5 million. See Note 5 of Notes to Consolidated Financial Statements for additional information about these property sales.

The remaining property, a day care facility in Rosemont, Illinois, is offered for sale by the Company at this time. The Company estimates the fair market value of the remaining property is less $.75 million.

Note 3: Fresh-Start Reporting

The Company adopted fresh-start reporting because, as a result of implementation of the Plan, holders of the Predecessor's existing common stock immediately before filing and confirmation of the plan retained less than 50 percent of the Common Stock of the emerging entity and the Company's reorganization value at emergence was less than its post-petition liabilities and allowed claims.

Under fresh start reporting, the reorganization value of the Company is allocated to estimated fair value of the emerging Company's net assets. The Company's reorganization value was based on the consideration of many factors and various valuation methodologies, primarily discounted cash flows, believed by the Company's management and its financial advisors to be representative of the Company's business and industry. The allocation of the Company's reorganization value to the estimated fair value of the net assets of the emerging company was determined in a manner similar to the accounting provisions applied for business combinations under Statement of Financial Accounting Standards No. 141 (SFAS 141) which consisted primarily of discounted cash flows for leased assets, amounts to be paid discounted at current rates for liabilities and recording of deferred taxes in accordance with generally accepted accounting principles.

The Company's reorganization value was less than the fair value of the emerging Company's net assets as estimated by the Company. In accordance with SFAS 141, the excess of the fair value of the net assets over the reorganization value is used to reduce the value of certain assets (primarily long-lived non-financial assets) to zero. The remaining excess was held as a contra asset on the balance sheet of the Company as of July 31, 2002. The Company recognized an extraordinary gain of $241 million, net of tax, in the Successor consolidated financial statements to recognize the excess which remained after reducing property, plant and equipment to zero. The excess of the estimated fair value of the net assets of the emerging Company over the reorganization value primarily relates to three factors: (1) the Company's European IT Leasing business performing better than expected (2) the strengthening of the Euro from the time of estimation of the reorganization value as disclosed in the Plan; and (3) the reorganization value considered future operating expenses, whereas the estimated fair value of the net assets of the emerging company did not. All future operating expenses will be expensed as incurred in accordance with generally accepted accounting principles.

The reorganization value and the related allocation to the estimated fair value of the net assets of the emerging Company was based upon a variety of estimates and assumptions about future circumstances and events. Such estimates and assumptions are inherently subject to significant uncertainties.

The extraordinary gain-debt discharge for the ten months ended July 31, 2002 was calculated as follows (in thousands):

Historical carrying value of old debt securities	$ 3,556
Historical value of related accrued interest	83
Unamortized portion of deferred debt issuance costs	(1)
Prepetition accounts payable and estimated liability related to disputed claims	180
Plan new debt	(1,050)
Plan cash distribution	(1,983)
Plan new common stock	(384)
Disputed claims reserve (cash)	(248)
	153
Tax provision	—
Gain on extinguishment of debt	$ 153

7.41

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
R.R. Donnelley & Sons Company

We have audited the accompanying consolidated balance sheets of R.R. Donnelley & Sons Company and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 R.R. Donnelley & Sons Company and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on February 27, 2004, the Company acquired all the outstanding shares of Moore Wallace Incorporated.

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, 2004, 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 14, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 2 (In Part): Acquisitions

On February 27, 2004, the Company acquired all of the outstanding shares of Moore Wallace in exchange for consideration of 0.63 shares of the Company's common stock for each outstanding common share of Moore Wallace. The aggregate consideration to the Moore Wallace shareholders was comprised of 102.1 million shares of common stock of the Company with a fair value of $2,804.9 million. The fair value of the Company's shares was based upon the actual number of shares issued to the Moore Wallace shareholders using the average closing trading price of the Company's common stock on the New York Stock Exchange during a five-day trading period beginning two trading days prior to the announcement of the combination agreement on November 8, 2003. The total purchase price of $2,758.0 million, net of cash acquired of $85.4 million, also included $21.6 million for the conversion of employee stock awards and direct acquisition costs of $16.9 million (which exclude debt issuance costs) through December 31, 2004.

The Acquisition was recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at the Acquisition Date. The excess of the cost of the Acquisition over the net of amounts assigned to the fair value of the assets acquired and the liabilities assumed is recorded as goodwill. The valuation of assets and liabilities has been determined and the purchase price has been allocated as follows:

Accounts receivable	$ 656.6
Inventory and customer backlog	323.8
Other current assets	37.0
Property, plant and equipment and other long-term assets	834.4
Amortizable intangible assets and indefinite-lived intangible assets	703.1
Goodwill	2,309.1
Accounts payable and accrued liabilities	(670.1)
Short-term and long-term debt	(966.2)
Postretirement and pension benefits and other long-term liabilities	(311.7)
Deferred taxes—net	(158.0)
Total purchase price—net of cash acquired	$2,758.0

Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of the Company and Moore Wallace as if the Acquisition had occurred at January 1, 2004 and 2003. The historical results of the Company for 2004 include the results of Moore Wallace from the Acquisition Date. The pro forma results presented below for 2004 combine the results of the Company for 2004 and the historical results of Moore Wallace from January 1, 2004 through February 26, 2004. The pro forma results for 2003 combine the historical results of the Company for 2003 with the combined historical results for 2003 of Moore Wallace and Wallace Computer Services Inc. ("Wallace"), which was acquired by Moore Wallace on May 15, 2003. Management believes that a more meaningful prior period comparison results from the inclusion of the results of Wallace from January 1, 2003 in the pro forma results for 2003 due to the significance of the Wallace acquisition. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had the Acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the Company's statutory tax rate.

	2004	2003
Net sales	$7,680.7	$7,390.6
Net earnings before cumulative effect of change in accounting principle	163.4	267.4
Net earnings	156.8	267.4
Earnings per share:		
Basic:		
Net earnings before cumulative effect of change in accounting principle	$ 0.75	$ 1.24
Cumulative effect of change in accounting principle	0.03	—
Net earnings	$ 0.72	$ 1.24
Diluted:		
Net earnings before cumulative effect of change in accounting principle	$ 0.74	$ 1.23
Cumulative effect of change in accounting principle	0.03	—
Net earnings	$ 0.71	$ 1.23

The pro forma net earnings for 2004 and 2003 include $44.4 million for the amortization of purchased intangibles. The unaudited pro forma financial information also includes the following non-recurring charges: Acquisition-related charges for the fair market value adjustment for inventory and backlog and other transaction costs of $97.9 million and $66.9 million for 2004 and 2003, respectively; and net restructuring and impairment charges from continuing operations of $105.0 million and $26.0 million for 2004 and 2003. Also included for 2004 are impairment and other non-recurring charges related to discontinued operations of $109.2 million.

DEPARTURES FROM UNQUALIFIED OPINIONS

7.42 *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

7.43 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.

7.44 In 2004, 12 auditor reports indicated that a change in auditors had occurred in the current year. An example of such a report follows.

7.45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Cleveland-Cliffs Inc

We have audited the accompanying statement of consolidated financial position of Cleveland-Cliffs Inc and subsidiaries (the "Company") as of December 31, 2004, and the related statements of consolidated operations, shareholders' equity and cash flows for the year ended December 31, 2004. Our audit also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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 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 Cleveland-Cliffs Inc and subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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, 2004, 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 February 22, 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Cleveland-Cliffs Inc

We have audited the accompanying statements of consolidated financial position of Cleveland-Cliffs Inc and consolidated subsidiaries (the "Company") as of December 31, 2003, and the related statements of consolidated operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2003 listed in the index at Item 15(a). 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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, and 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 Cleveland-Cliffs Inc and consolidated subsidiaries at December 31, 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 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 basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in the Accounting Policy Note to the financial statements, in 2003 the Company changed its method of accounting for stock-based compensation, and in 2002 the Company changed its method of accounting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

7.46 Many survey companies provide to stockholders a copy of the Securities and Exchange Commission Form 10-K in lieu of the annual report. The auditor's report included in the Form 10-K generally expresses an opinion on supplementary financial information to the basic financial statements, such as valuation account schedules. An example of such a report follows.

7.47

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
The Eastern Company

We have audited the accompanying consolidated balance sheets of The Eastern Company as of January 1, 2005 and January 3, 2004, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended January 1, 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Eastern Company at January 1, 2005 and January 3, 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 1, 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.

DATING OF REPORT

7.48 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.

7.49 Auditors' reports for 21 survey companies used dual dating. Examples of dual dating follow.

7.50

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 30, 2004 and November 1, 2003, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended October 30, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(c). 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at October 30, 2004 and November 1, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 30, 2004, 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 2f to the consolidated financial statements, effective November 3, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

November 15, 2004, except for Note 16,
as to which the date is
November 22, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Subsequent Event

On November 22, 2004, the Board of Directors of the Company declared a cash dividend of $0.06 per outstanding share of common stock. The dividend will be paid on December 22, 2004 to all stockholders of record at the close of business on December 3, 2004.

7.51

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders and Board of Directors of
Brown Shoe Company, Inc.

We have audited the accompanying consolidated balance sheets of Brown Shoe Company, Inc. as of January 29, 2005, and January 31, 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 29, 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 Brown Shoe Company, Inc. at January 29, 2005, and January 31, 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 29, 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 2 to the consolidated financial statements, the Company has restated its financial statements for the years ended January 31, 2004, and February 1, 2003, to correct its accounting for leases.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Brown Shoe Company, Inc.'s internal control over financial reporting as of January 29, 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 March 8, 2005, expressed an unqualified opinion on management's assertion and an adverse opinion on the effectiveness of internal control over financial reporting because of the existence of a material weakness.

March 8, 2005, except for Note 18
as to which the date is
March 14, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Event—Acquisition of Bennett Footwear Group

On March 14, 2005, the Company announced that it had entered into a Securities Purchase Agreement to acquire Bennett Footwear Group, LLC ("Bennett") for $205 million in cash, plus contingent payments of up to $42.5 million based upon the achievement of certain performance targets over the next three years. The purchase price is subject to post-closing adjustment based on actual net equity. The Bennett acquisition is expected to close during April or May of 2005.

Bennett's owned and licensed footwear brands, which include Via Spiga, Franco Sarto, Etienne Aigner and Nickels Soft, are primarily sold in footwear departments of many major U.S. department and specialty stores. The Bennett acquisition complements the Company's existing portfolio of well-known wholesale brands such as Naturalizer, LifeStride, Bass and Dr. Scholl's, which are sold primarily in the moderately priced range, by adding strong brands in the better and bridge footwear zones. Bennett had revenues of approximately $200 million in 2004.

The Company has received a commitment letter from a lender to provide a senior unsecured loan to fund up to $100 million for the Bennett acquisition, which will bear interest at the greater of 8.25% or a floating rate based on three-month LIBOR, increasing at the end of each three-month period that the loan is outstanding ("the Bridge Loan"). The Bridge Loan will be guaranteed by all existing and future subsidiaries of the Company that are guarantors under its existing revolving Credit Agreement. The Company will fund the remaining portion of the purchase price from existing cash and available borrowings under the existing revolving Credit Agreement. The Company anticipates that it will refinance the acquisition cost by issuing long-term notes totaling approximately $150 million to $175 million during 2005.

7.52

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
National Semiconductor Corporation

We have audited the accompanying consolidated balance sheets of National Semiconductor Corporation and subsidiaries (the Company) as of May 30, 2004 and May 25, 2003, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended May 30, 2004. 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 National Semiconductor Corporation and subsidiaries as of May 30, 2004 and May 25, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended May 30, 2004 in conformity with U.S. generally accepted accounting principles.

As described in notes 1 and 7 to the consolidated financial statements, the Company recorded the cumulative effect of a change in accounting principle in connection with its adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," as of the beginning of fiscal 2004.

June 9, 2004 (except as to Note 17,
which is as of July 7, 2004).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

Contingencies—Legal Proceedings (In Part)

Other Matters

In April 2002, ZF Micro Solutions, Inc. brought suit against us alleging a number of contract and tort claims related to an agreement we had entered into in 1999 to design and manufacture a custom integrated circuit device for ZF Micro Devices. ZF Micro Devices ceased business operations in February 2002 and the case was brought by ZF Micro Solutions as successor to ZF Micro Devices. Trial began in May 2004 and a verdict, which is discussed in Note 17, Subsequent Events, was rendered in June 2004 after the end of our fiscal year.

Note 17. Subsequent Events

In June 2004, the jury in the case brought against us by ZF Micro Solutions, Inc. rendered its verdict. The background of this case is discussed in the Legal Proceedings section of Note 13, Commitments and Contingencies. The jury found for ZF Micro Solutions, Inc. on a claim of intentional misrepresentation, awarding damages of $28.0 million, and on a claim of breach of the implied covenant of good faith and fair dealing, awarding damages of $2.0 million. The jury found for us on seven other of the plaintiff's claims and also found for us on our cross-claim for breach of contract, awarding us damages of $1.1 million. We are challenging the verdicts against us in post-trial motions and intend to vigorously pursue the appeal of any judgment that may be entered against us in this case. We have accrued a charge of $30.0 million to cover the total amount of damages the jury awarded to ZF Micro Solutions. Although the loss we may ultimately sustain may be higher or lower than the amount we have recorded, we believe this is our best estimate at this time of any loss we could incur. This amount is included in special items in the consolidated statement of operations for the fourth quarter of fiscal 2004. We have not recognized the $1.1 million for damages awarded to us, since we have no assurance of its recoverability.

In June 2004, we settled for $2.2 million a patent infringement case that was originally brought against us in June 2002. This settlement amount is included in net intellectual property settlements as a component of special items for the fourth quarter of fiscal 2004 and has since been paid.

7.53

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Scientific Industries, Inc.

We have audited the accompanying consolidated balance sheets of Scientific Industries, Inc. and subsidiary as of June 30, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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 Scientific Industries, Inc. and subsidiary as of June 30, 2004 and 2003, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 30, 2004, except Note 8
as to which the date is
September 1, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingencies

Lease (In Part)

The Company is obligated through December 2004 under a noncancelable operating lease for its premises, which required current minimum annual rental payments of approximately $244,000 and certain other expenses, including real estate taxes and insurance. On September 1, 2004, the lease was extended to January 31, 2010.

7.54

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Worthington Industries, Inc.

We have audited the accompanying consolidated balance sheets of Worthington Industries, Inc. and subsidiaries as of May 31, 2004 and 2003, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended May 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule of valuation and qualifying accounts. 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 Worthington Industries, Inc. and subsidiaries as of May 31, 2004 and 2003, and the results of their operations and their cash flows for each of three years in the three-year period ended May 31, 2004 in conformity with accounting principles generally accepted in the United State of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

June 18, 2004,
except as to Note C paragraph 3,
which is as of July 22, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Debt

During July 2004, the Company amended the $235.0 million revolving credit facility to increase its size to $435.0 million and eliminate certain covenants. This facility is with the same group of 15 banks, matures in May 2007, and contains the same provisions mentioned above.

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.

7.57 399 of the companies surveyed presented a management's report on internal control over financial reporting. 351 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. 147 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

The Board of Directors and Stockholders
J. C. Penney Company, Inc.

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that J. C. Penney Company, Inc. maintained effective internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). J. C. Penney Company, Inc.'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 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 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.

In our opinion, management's assessment that J. C. Penney Company, Inc. maintained effective internal control over financial reporting as of January 29, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, J. C. Penney Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of J. C. Penney Company, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 29, 2005, and our report dated March 25, 2005 expressed an unqualified opinion on those consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of J. C. Penney Company, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting.

J. C. Penney Company, Inc. management has assessed the effectiveness of the Company's internal control over financial reporting as of January 29, 2005. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on its assessment, management of J. C. Penney Company, Inc. believes that, as of January 29, 2005, the Company's internal control over financial reporting is effective based on those criteria.

KPMG LLP, the registered public accounting firm that audited the financial statements included in this 2004 Annual Report to Stockholders, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

7.59

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM—INTERNAL CONTROL OVER REPORTING

To the Board of Directors and Stockholders
Standard Motor Products, Inc.

We were engaged to audit management's assessment, included in Management's Report on Internal Control over Financial Reporting (included in Item 8 of this Form 10-K), that Standard Motor Products, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

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 weaknesses have been identified and included in management's assessment. A material weakness exists as of December 31, 2004, with regard to insufficient personnel in the accounting and financial reporting function due to accounting staff (including senior level employees) turnover occurring in the fourth quarter of 2004, which affects management's ability to effectively review and analyze elements of the financial statement closing process and prepare consolidated financial statements in accordance with U.S. GAAP. In addition, a material weakness exists as of December 31, 2004, in controls over closing procedures due to a number of year-end audit adjustments. There were deficiencies in the analysis and reconciliation of general ledger accounts which were indicative of a material weakness in controls over closing procedures, including the (a) month end cut off processes, and (b) the accounting and reporting of restructuring charges. Finally, a material weakness exists as of December 31, 2004 in regards to information technology. In particular, information technology is run in a decentralized mode. The Company needs to establish enterprise wide information technology strategy to synthesize the disparate IT platforms, develop and enforce policies and unify the business solutions and software applications being employed. The security of systems used for the entry and maintenance of accounting records requires additional documentation and scrutiny to ensure that access to such systems and the data contained therein is restricted to only those employees whose job duties require such access. A policy and procedure to address an overall security framework, including password usage, intrusion detection and system security monitoring must be written and implemented. The IT system has not been maintained in a manner that provides assurance that all and only authorized changes have been properly designed, tested, and used. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 financial statements, and this report does not affect our report dated March 31, 2005 on those financial statements.

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 (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 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.

Since management was unable to complete its assessment on internal control over financial reporting as of December 31, 2004, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of the Company's internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion either on management's assessment or on the effectiveness of the Company's internal control over financial reporting.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2004, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and our report dated March 31, 2005, expressed an unqualified opinion on those consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Stockholders
Standard Motor Products, Inc.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). The Company'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. Because of these inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect misstatements. 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 significant deficiency (as defined in PCAOB Auditing Standard No. 2), or combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement in financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work.

Grant Thornton LLP, our independent registered public accounting firm, has provided us with an unqualified report on our consolidated financial statements for 2004. However, in connection with the audit procedures for the audit of our 2004 financial statements and internal controls assessment, we were not able to complete fully our testing of a sufficient amount of key controls in our processes to satisfy Grant Thornton on their effectiveness. One of the reasons for our inability to complete such testing was that we did not have adequate resources to perform such testing by December 31, 2004. Accordingly, in consultation with Grant Thornton, we have concluded that we are unable to complete the management assessment of our internal control over financial reporting as of December 31, 2004 as required under Section 404 of the Sarbanes-Oxley Act, and Grant Thornton has issued a "disclaimer" opinion, included herein, indicating that they do not express an opinion as to management's assessment and as to the effectiveness of our internal control over financial reporting as of December 31, 2004.

Notwithstanding the above, management is strengthening the Company's internal control over financial reporting beyond what has existed in prior years. In the course of performing its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, management identified the following material weaknesses in the Company's internal control over financial reporting:

(1) There were insufficient personnel resources within the accounting and financial reporting function due to accounting staff (including senior level employees) turnover occurring in the fourth quarter of 2004.

(2) There were deficiencies identified in the following areas of the Company's information technology function which, when considered in the aggregate, constitute a material weakness over financial reporting:
- The Company's IT system is decentralized with disparate IT platforms, business solutions and software applications being utilized.
- System maintenance policies and procedures (including an enhanced disaster recovery plan) require development and adoption.
- Security of systems used for the entry and maintenance of accounting records requires additional documentation and scrutiny to ensure that appropriate access to such systems and the data contained therein is restricted.
- A policy and procedure to address an overall security framework, including password usage, intrusion detection, system security monitoring and back-up recovery must be written and implemented.

(3) There were deficiencies in the analysis and reconciliation of general ledger accounts which were indicative of a material weakness in controls over closing procedures, including the (a) month end cut off processes, and (b) the accounting and reporting of restructing charges.

Since the discovery of the material weaknesses in internal controls described above, we have taken various actions to remediate our internal control over financial reporting including, but not limited to, the following:

(1) We have engaged a search firm to assist us in the hiring of additional senior level accounting staff. We expect to fill such positions by the second or third quarters of 2005. In addition, in the first quarter of 2005, we hired a Financial Compliance Manager to assist us with our Sarbanes-Oxley compliance.

(2) We have re-allocated resources to our accounting and finance department to strengthen our accounting function. In particular, in the first quarter of 2005 we have transferred one employee from our European operations to become our Engine Management Group Controller, and in the second quarter of 2005 we will be transferring one employee from our Canadian operations to serve in a senior level accounting position in our Engine Management division. In addition, in the fourth quarter of 2004 we have hired an outside consultant to assist us with our accounting function.

(3) In 2004, we retained an independent third party consulting firm to assist us in the preparation, documentation and testing of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We intend to continue to utilize this consulting firm with our Sarbanes-Oxley compliance efforts in 2005.

(4) As part of our efforts to improve our IT function, we are in the process of:
- Establishing an enterprise wide information technology strategy to synthesize the disparate IT platforms and to develop policies to unify the business solutions and software applications being employed;
- Establishing a plan for uniform upgrades of workstations and software, including virus protection and software fixes;
- Establishing a formal policy and procedure to address the overall security framework, including password usage, intrusion detection and system security monitoring;
- Improving our security measures to safeguard our data, including enhancing our disaster recovery plan;
- Improving our policies and procedures for system maintenance and handling back-up and recovery tapes; and
- Utilizing a consulting firm to assist us with preparing an IT policy and procedures manual to document all of our updated IT procedures/standards on a company-wide basis.

The continued implementation of the initiatives described above is among our highest priorities. We have discussed our corrective actions and future plans with our audit committee and Grant Thornton and, as of the date of this Report, we believe the actions outlined above should correct the above-listed material weaknesses in our internal controls. However, we cannot assure you that neither we nor our independent auditors will in the future identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

In making this assessment, the Company's 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 believes that, as of December 31, 2004, the Company's internal control over the financial reporting was not effective based on those criteria.

Notwithstanding Grant Thornton's "disclaimer" opinion, Grant Thornton has indicated its agreement with the above listed weakness in our internal controls and has advised our audit committee of our board of directors that the internal control weaknesses do not affect Grant Thornton's unqualified report on our consolidated financial statements for 2004, which is included in this Report.

Combined Report on Financial Statements and Internal Control

7.60

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
HNI Corporation

We have completed an integrated audit of HNI Corporation's (formerly HON INDUSTRIES Inc.) fiscal year 2004 consolidated financial statements and of its internal control over financial reporting as of January 1, 2005 and audits of its January 3, 2004 and December 28, 2002 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 income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of HNI Corporation and its subsidiaries (the "Company") at January 1, 2005, January 3, 2004, and December 28, 2002 and the results of their operations and their cash flows for each of the three years in the period ended January 1, 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 the accompanying Management Report on Internal Control Over Financial Reporting that the Company maintained effective internal control over financial reporting as of January 1, 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 January 1, 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 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of HNI Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a–15(f) and 15d–15(f) under the Securities Exchange Act of 1934. HNI Corporation'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 accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those written policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HNI Corporation;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of HNI Corporation

are being made only in accordance with authorizations of management and directors of HNI Corporation; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices), and actions taken to correct deficiencies as identified.

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 assessed the effectiveness of HNI Corporation's internal control over financial reporting as of January 1, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of January 1, 2005, HNI Corporation maintained effective internal control over financial reporting.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 1, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

7.61

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Wyeth

We have completed an integrated audit of Wyeth's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 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, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Wyeth and its subsidiaries (the Company) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 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 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, managements assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting of December 31, 2004 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, 2004, 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 acquistion, 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 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The 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 GAAP 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 the 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 and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 based upon criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management determined that the Compay's internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

GENERAL MANAGEMENT AND SPECIAL PURPOSE COMMITTEE REPORTS

7.62 There were 226 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.

7.63 Examples of a Report of Management on Financial Statements and certain special purpose committee reports follow.

Report of Management on Financial Statements

7.64

DOW JONES & COMPANY, INC. (DEC)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared and is responsible for the Company's consolidated financial statements and related information appearing in this report. The financial statements, which include amounts based on estimates and judgments that Management believes are reasonable, have been prepared in conformity with generally accepted accounting principles consistently applied. Accordingly, Management believes that the consolidated financial statements reasonably present the Company's financial position and results of operations and that the form and substance of transactions are fairly reflected.

Management has developed and continues to maintain a system of internal accounting and other controls for the Company and its subsidiaries. Management believes these controls provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the Company's financial records are a reliable basis for preparing the financial statements. The Company's system of internal controls is supported by written policies, including a code of conduct, a program of internal audits, and by a program of selecting and training qualified staff. Underlying the concept of reasonable assurance is the premise that the cost of control should not exceed the benefit derived.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the consolidated financial statements of the Company and its internal control over financial reporting, as described in their report. Their report expresses an opinion on whether the financial statements included in the Form 10-K present fairly, in all material respects, the financial condition of the Company and the results of its operations and its cash flows in accordance with accounting principles generally accepted in the United States of America and opinions on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Board of Directors of the Company, through its audit committee consisting solely of independent directors, is responsible for reviewing and monitoring the Company's financial reporting, accounting practices and the retention of the independent registered public accounting firm. The audit committee meets regularly with financial management, internal auditors and the independent registered public accounting firm—both separately and together—to review the results of their audits, the adequacy of internal accounting controls and financial reporting matters.

Chairman of the Board and Chief Executive Officer

Vice President and Chief Financial Officer

Audit Committee Report

7.65

THE KROGER CO. (JAN)

AUDIT COMMITTEE REPORT

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding the Company's financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditors; and the preparation of this report that SEC rules require be included in the Company's annual proxy statement. The Audit Committee performs this work under the guidance of a written charter approved by the Board of Directors. The Audit Committee charter most recently was revised during fiscal 2005. The complete text of the revised charter is reproduced in Appendix 1 to this proxy statement. The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that is necessary or appropriate to each of the matters assigned to it under the Committee's charter. The Audit Committee held eight meetings during fiscal year 2004. The Audit Committee meets separately with the Company's internal auditor and PricewaterhouseCoopers LLP, without management present, to discuss the results of their audits, their evaluations of the Company's internal controls over financial reporting, and the overall quality of the Company's financial reporting. The Audit Committee also meets separately with the Company's Chief Financial Officer and General Counsel. Following these separate discussions, the Audit Committee meets in executive session.

Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles and internal controls, and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for auditing the Company's financial statements and expressing opinions as to their conformity with generally accepted accounting principles and on management's assessment of the effectiveness of the Company's internal control over financial reporting. In addition the independent public accountants will express their own opinion on the effectiveness of the Company's internal control over financial reporting.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management and the Company's independent public accountants, PricewaterhouseCoopers LLP, the audited financial statements for the year ended January 29, 2005, management's assessment of the effectiveness of the Company's internal control over financial reporting and PricewaterhouseCoopers' evaluation of the Company's internal control over financial reporting. The Audit Committee has also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication With Audit Committees."

With respect to the Company's independent public accountants, the Audit Committee, among other things, discussed with PricewaterhouseCoopers LLP matters relating to its independence and has received the written disclosures and the letter from the independent public accountants required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The Audit Committee has reviewed and approved all services provided to the Company by PricewaterhouseCoopers LLP. The Company's independent public accountants did not perform any internal audit service or participate in the design or implementation of any financial information system. The Audit Committee conducted a review of services provided by PricewaterhouseCoopers LLP which included an evaluation by management and members of the Audit Committee.

Based upon the review and discussions described in this report, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended January 29, 2005, as filed with the Securities and Exchange Commission.

This report is submitted by the Audit Committee.

Chair

Compensation Committee Report

7.66

MERCK & CO., INC. (DEC)

COMPENSATION AND BENEFITS COMMITTEE'S REPORT

The Compensation and Benefits Committee, comprised of independent directors, approves compensation objectives and policies for all employees and sets compensation for the Company's executive officers. The Committee seeks to ensure that rewards are closely linked to Company, division, team and individual performances. The Committee also seeks to ensure that compensation and benefits are set at levels that enable Merck to attract and retain highly qualified employees. The Committee views stock ownership as a vehicle to align the interests of employees with those of the Company's stockholders. Consistent with the long-term focus inherent in the Company's R&D-based pharmaceutical business, it is the policy of the Committee to make a high proportion of executive officer compensation dependent on long-term performance and on enhancing stockholder value.

Chairperson

Appendix of 600 Companies

List of 600 Companies on Which Tabulations Are Based

In this edition, companies have been assigned the same number as in the Fifty-eighth (2004) edition. 33 companies in the 2004 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
Adolph Coors Company	147	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
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
Anacomp, Inc.	696	9
Anadarko Petroleum Corporation	990	12
Analog Devices, Inc.	924	10
Analogic Corporation	48	7
Anheuser-Busch Companies, Inc.	51	12
A. O. Smith Corporation	494	12
Apple Computer, Inc.	52	9
Applied Industrial Technologies, Inc.	955	6
Applied Materials, Inc.	863	10
Archer Daniels Midland Company	53	6
Arden Group, Inc.	54	12
Arkansas Best Corporation	1072	12
Armstrong Holdings, Inc.	1033	12
Arrow Electronics, Inc.	844	12
ArvinMeritor, Inc.	1073	9
Ashland Inc.	60	9
AT&T Corp.	43	12
Atmel Corporation	864	12
Ault Incorporated	738	5
Automatic Data Processing, Inc.	865	6
AutoZone, Inc.	991	8
Avaya Inc.	1034	9
Avery Dennison Corporation	604	12
Avnet, Inc.	65	6
Avon Products, Inc.	66	12
Badger Meter, Inc.	68	12
Baker Hughes Incorporated	70	12
Baldor Electric Company	778	12
Ball Corporation	71	12
Banta Corporation	806	12
Barnes & Noble, Inc.	992	1
Barnes Group Inc.	605	12
Bassett Furniture Industries, Incorporated	606	11
Bausch & Lomb Incorporated	74	12
Baxter International Inc.	75	12
B/E Aerospace, Inc.	866	12
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
Blount International, Inc.	699	12
BMC Software, Inc.	1117	3
The Boeing Company	87	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*
Boston Scientific Corporation	867	12
Bowater Incorporated	607	12
Bowne & Co., Inc.	91	12
Briggs & Stratton Corporation	93	6
Brinker International, Inc.	1074	6
Bristol-Myers Squibb Company	94	12
Brown Shoe Company, Inc.	97	1
Brown-Forman Corporation	657	4
Brunswick Corporation	99	12
Burlington Coat Factory Warehouse Corporation	959	5
Burlington Resources Inc.	700	12
Cablevision Systems Corporation	994	12
Cabot Corporation	108	9
Caesars Entertainment, Inc.	1018	12
Campbell Soup Company	110	7
Caremark Rx, Inc.	995	12
Carlisle Companies Incorporated	897	12
Carpenter Technology Corporation	610	6
Caterpillar Inc.	113	12
CBRL Group, Inc.	1118	7
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
Charter Communications, Inc.	1038	12
Chesapeake Corporation	659	12
ChevronTexaco Corporation	121	12
Chiquita Brands International, Inc.	557	12
Ciena Corporation	1039	10
Cigna Corporation	997	12
Cintas Corporation	1040	5
Circuit City Stores, Inc.	868	2
Cisco Systems, Inc.	869	7
Citizens Communications Company	1041	12
CLARCOR Inc.	658	11
Clear Channel Communications, Inc.	998	12
Cleveland-Cliffs Inc	130	12
The Clorox Company	131	6
CNF Inc.	1075	12
Coca-Cola Bottling Co. Consolidated	1076	12
The Coca-Cola Company	133	12
Coca-Cola Enterprises Inc.	660	12
Coherent, Inc.	742	9
Colgate-Palmolive Company	135	12
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

Company Name	Company Reference Number	Month of Fiscal Year End*
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
Cox Communications, Inc.	1001	12
Crane Co.	152	12
C. R. Bard, Inc.	845	12
Crompton Corporation	1077	12
Crown Holdings, Inc.	154	12
CSP Inc.	107	9
CTS Corporation	701	12
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	5
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
DIMON Incorporated	782	3
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
Enesco Group, Inc.	510	12
Engelhard Corporation	198	12
Equifax Inc.	902	12
The Estee Lauder Companies Inc.	872	6
Exide Technologies	873	3
Exxon Mobil Corporation	202	12

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Company Name	Company Reference Number	Month of Fiscal Year End*
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
Georgia-Pacific Corporation	243	12
Giant Industries, Inc.	1081	12
The Gillette Company	246	12
GlobalSantaFe Corporation	929	12
Golden Enterprises, Inc.	247	5
Goodrich Corporation	1045	12
The Goodyear Tire & Rubber Company	249	12
Google Inc.	1123	12
The Great Atlantic & Pacific Tea Company, Inc.	254	2
Greif, Inc.	256	10
Griffon Corporation	1083	9
Guidant Corporation	904	12
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
Hershey Foods Corporation	277	12
Hewitt Associates, Inc.	1124	9
Hewlett-Packard Company	278	10
Hillenbrand Industries, Inc.	624	9
Hilton Hotels Corporation	1011	12

Company Name	Company Reference Number	Month of Fiscal Year End*
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
Hughes Supply, Inc.	283	1
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
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
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
Juno Lighting, Inc.	712	11
Kaman Corporation	629	12
KB Home	967	11
Kellogg Company	317	12
Kellwood Company	838	1
Kelly Services, Inc.	318	12
Kerr-McGee Corporation	320	12
Kimball International, Inc.	853	6
Kimberly-Clark Corporation	324	12
KLA-Tencor Corporation	932	6
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
The Lamson & Sessions Co.	713	12
Lance, Inc.	854	12
L. B. Foster Company	669	12

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
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
Marsh Supermarkets, Inc.	1048	3
Masco Corporation	360	12
Mattel, Inc.	361	12
Maxim Integrated Products, Inc.	1049	6
Maxtor Corporation	1085	12
MAXXAM Inc.	760	12
The May Department Stores Company	362	1
Maytag Corporation	363	12
McCormick & Company, Incorporated	364	11
McDermott International, Inc.	365	12
McDonald's Corporation	366	12
The McGraw-Hill Companies, Inc.	368	12
McKesson Corporation	369	3
MeadWestvaco Corporation	1109	12
Media General, Inc.	631	12
Medtronic, Inc.	371	4
Merck & Co., Inc.	373	12
Meredith Corporation	374	6
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
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, Inc.	1132	12
Nature Vision, Inc.	686	12
Navistar International Corporation	299	10
NCR Corporation	392	12
The New York Times Company	400	12
Newell Rubbermaid Inc.	680	12
NewMarket Corporation	199	12
Newmont Mining Corporation	936	12
Nextel Communications, Inc.	1051	12
NIKE, Inc.	401	5
Noble Energy, Inc.	910	12
Nordstrom, Inc.	911	1
Northrop Grumman Corporation	405	12
Novell, Inc.	839	10
Novellus Systems, Inc.	1052	12
Nucor Corporation	633	12
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
Quanex Corporation	455	10
Quantum Corporation	884	3
Quintiles Transnational Corp.	1055	12

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Company Name	Company Reference Number	Month of Fiscal Year End*	Company Name	Company Reference Number	Month of Fiscal Year End*
RadioShack Corporation	528	12	The Stanley Works	511	12
Raytheon Company	461	12	Staples, Inc.	983	1
The Reader's Digest Association, Inc.	792	6	Starbucks Corporation	984	9
Reebok International Ltd.	885	12	Starwood Hotels & Resorts Worldwide, Inc.	1060	12
Regal Entertainment Group	1087	12	Steel Dynamics, Inc.	1137	12
Republic Services, Inc.	976	12	Steel Technologies Inc.	723	9
Reynolds American, Inc.	1023	12	Steelcase Inc.	942	2
The Reynolds and Reynolds Company	939	9	Stewart & Stevenson Services, Inc.	768	1
Rite Aid Corporation	886	2	Storage Technology Corporation	804	12
Robbins & Myers, Inc.	764	8	Stryker Corporation	1061	12
Robert Half International Inc.	977	12	Sun Microsystems, Inc.	769	6
Rock-Tenn Company	915	9	SunGard Data Systems Inc.	1113	12
Rockwell Automation, Inc.	469	9	Sunoco, Inc.	520	12
Rockwell Collins, Inc.	1056	9	SUPERVALU INC.	522	2
Rohm and Haas Company	470	12	Swift Transportation Co., Inc.	1089	12
The Rowe Companies	471	11	Sybase, Inc.	889	12
RPM International Inc.	1057	5	Symbol Technologies, Inc.	1114	12
R.R. Donnelley & Sons Company	175	12	Sysco Corporation	887	6
Ruddick Corporation	811	9	Target Corporation	165	1
Russell Corporation	832	12	Tasty Baking Company	529	12
Ryder System, Inc.	1088	12	Tech Data Corporation	1026	1
Ryerson Tull, Inc.	293	12	Tecumseh Products Company	530	12
Safeway Inc.	478	12	Tektronix, Inc.	794	5
Sanmina-SCI Corporation	1024	9	Teleflex Incorporated	1138	12
Sara Lee Corporation	479	6	Tellabs, Inc.	944	12
Saucony, Inc.	675	12	Temple-Inland Inc.	532	12
SBC Communications Inc.	979	12	Tenet Healthcare Corporation	1027	12
Schering-Plough Corporation	481	12	Tenneco Automotive Inc.	534	12
Schlumberger Limited	482	12	Teradyne, Inc.	890	12
Scientific Industries, Inc.	765	6	Terra Industries Inc.	676	12
Scientific-Atlanta, Inc.	1058	6	Tesoro Corporation	535	12
The Scotts Company	833	9	Texas Industries, Inc.	725	5
Seaboard Corporation	858	12	Texas Instruments Incorporated	537	12
Sealed Air Corporation	1136	12	Textron Inc.	538	12
Sears, Roebuck and Co.	486	12	Thermo Electron Corporation	813	12
Sensient Technologies Corporation	814	12	Thomas & Betts Corporation	771	12
Sequa Corporation	519	12	Thor Industries, Inc.	1090	7
Service Corporation International	487	12	The Timberland Company	1139	12
The ServiceMaster Company	940	12	Time Warner Inc.	923	12
The Sherwin-Williams Company	490	12	The Timken Company	542	12
Silicon Graphics, Inc.	981	6	The TJX Companies, Inc.	770	1
Skyworks Solutions, Inc.	23	3	Toll Brothers, Inc.	1140	10
Smith International, Inc.	941	12	The Toro Company	726	10
Smithfield Foods, Inc.	690	4	Toys"R"Us, Inc.	772	1
Smurfit-Stone Container Corporation	628	12	TransTechnology Corporation	727	3
Snap-on Incorporated	496	12	Tribune Company	547	12
Solectron Corporation	888	8	Trinity Industries, Inc.	646	12
Sonoco Products Company	691	12	Trump Hotels & Casino Resorts, Inc.	1062	12
Span-America Medical Systems, Inc.	834	9	Tupperware Corporation	891	12
Sparton Corporation	498	6	Twin Disc, Incorporated	728	6
Spectrum Control, Inc.	499	11	Tyler Technologies, Inc.	549	12
Spherion Corporation	1059	12	Tyson Foods, Inc.	550	9
Sprint Corporation	1025	12	Unifi, Inc.	553	6
SPX Corporation	642	12	Unisys Corporation	102	12
St. Jude Medical, Inc.	1112	12	United States Steel Corporation	561	12
Standard Commercial Corporation	812	3	United Stationers Inc.	1028	12
Standard Motor Products, Inc.	507	12	United Technologies Corporation	564	12
The Standard Register Company	509	12	UnitedHealth Group Incorporated	859	12
Standex International Corporation	767	6			

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
Universal Corporation	566	3
Universal Forest Products, Inc.	949	12
Universal Health Services, Inc.	1064	12
Univision Communications Inc.	1141	12
Unocal Corporation	568	12
UNOVA, Inc.	947	12
URS CORPORATION	1142	10
USG Corporation	552	12
UST Inc.	563	12
UTStarcom, Inc.	1143	12
Valero Energy Corporation	647	12
Varco International, Inc.	1091	12
Varian Medical Systems, Inc.	571	9
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
The Warnaco Group, Inc.	1145	12
The Washington Post Company	649	12
Waste Management, Inc.	580	12
Wausau•Mosinee Paper Corporation	581	12
Weatherford International Ltd.	950	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
Wyndham International, Inc.	1068	12
Xerox Corporation	1093	12
Xilinx, Inc.	1069	3
XO Communications, Inc.	1070	12
York International Corporation	650	12
Yum! Brands, Inc.	1094	12

COMPANIES INCLUDED IN FIFTY-EIGHTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

Company Name	*Company Reference Number*
Acterna Corporation	1071
Amcast Industrial Corporation	25
Anthem, Inc.	1096
Boise Cascade Corporation	88
Collins Industries, Inc.	137
Delphi Corporation	1003
The Dial Corporation	257
Fedders Corporation	206
Ferro Corporation	800
Flowserve Corporation	903
Grey Global Group Inc.	1082
Guilford Mills, Inc.	259
IMC Global Inc.	752
International Multifoods Corporation	301
The Interpublic Group of Companies, Inc.	837
Interstate Bakeries Corporation	303
Jostens, Inc.	312
Kmart Holding Corporation	314
Land O'Lakes, Inc.	1107
Levi Strauss & Co.	1108
Mandalay Resort Group	898
Merisel, Inc.	1016
Metro-Goldwyn-Mayer Inc.	934
PeopleSoft, Inc.	973
Plains Resources Inc.	1020
Prab, Inc.	447
Science Applications International Corporation	980
Scope Industries	484
Speizman Industries, Inc.	721
Tower Automotive, Inc.	945
United Rentals, Inc.	1063
Waxman Industries, Inc.	732
WHX Corporation	587

*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 Corp.	12
44	Ameron International Corporation	11
46	Ampco-Pittsburgh Corporation	12
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	AK Steel Holding Corporation	12
60	Ashland Inc.	9
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	12
71	Ball Corporation	12
74	Bausch & Lomb Incorporated	12
75	Baxter International Inc.	12
78	Becton, Dickinson and Company	9
81	Bemis Company, Inc.	12
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	ChevronTexaco Corporation	12
127	Milacron Inc.	12
130	Cleveland-Cliffs Inc.	12
131	The Clorox Company	6
133	The Coca-Cola Company	12
135	Colgate-Palmolive Company	12
140	Commercial Metals Company	8
142	ConAgra Foods, Inc.	5
145	Ceridian Corporation	12
146	Cooper Industries, Ltd.	12
147	Adolph Coors Company	12
149	Corning Incorporated	12
150	Courier Corporation	9
152	Crane Co.	12
154	Crown Holdings, Inc.	12
158	Curtiss-Wright Corporation	12
161	Dana Corporation	12
165	Target Corporation	1
166	Dean Foods Company	5
167	Deere & Company	10
168	Deluxe Corporation	12
174	The Walt Disney Company	9
175	R.R. Donnelley & Sons Company	12
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, 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
243	Georgia-Pacific Corporation	12
246	The Gillette Company	12
247	Golden Enterprises, Inc.	5
249	The Goodyear Tire & Rubber Company	12
252	W. R. Grace & Co.	12
253	W.W. Grainger, Inc.	12
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

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	Company Name	Month of Fiscal Year End*
273	Hecla Mining Company	12
275	H.J. Heinz Company	4
276	Hercules Incorporated	12
277	Hershey Foods Corporation	12
278	Hewlett-Packard Company	10
282	Hormel Foods Corporation	10
283	Hughes Supply, Inc.	1
285	Humana Inc.	12
287	Hurco Companies, Inc.	10
288	PepsiAmericas, Inc.	12
291	ITT Industries, Inc.	12
292	Ingersoll-Rand Company Limited	12
293	Ryerson Tull, Inc.	12
295	Intel Corporation	12
296	Furniture Brands International, Inc.	12
298	International Business Machines Corporation	12
299	Navistar International Corporation	10
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
362	The May Department Stores Company	1
363	Maytag Corporation	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	12
366	McDonald's Corporation	12
368	The McGraw-Hill Companies, Inc.	12
369	McKesson Corporation	3
371	Medtronic, Inc.	4
372	CVS Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
377	Herman Miller, Inc.	5
379	3M Company	12
383	Monsanto Company	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

Company Reference Number	Company Name	Month of Fiscal Year End*
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
486	Sears, Roebuck and Co.	12
487	Service Corporation International	12
490	The Sherwin-Williams Company	12
494	A. O. Smith Corporation	12
496	Snap-on Incorporated	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
507	Standard Motor Products, Inc.	12
509	The Standard Register Company	12
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 Automotive 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

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Company Reference Number	Company Name	Month of Fiscal Year End*
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
568	Unocal Corporation	3
570	VF Corporation	12
571	Varian Medical Systems, Inc.	9
573	Vulcan Materials Company	12
575	Walgreen Co.	8
580	Waste Management, Inc.	12
581	Wausau•Mosinee Paper Corporation	12
586	Weyerhaeuser Company	12
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

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
650	York International Corporation	12

COMPANIES ADDED FOR 1988 EDITION

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

Company Reference Number	Company Name	Month of Fiscal Year End*
675	Saucony, Inc.	12
676	Terra Industries Inc.	12
678	Lafarge North America Inc.	12
680	Newell Rubbermaid Inc.	12
682	Omnicom Group Inc.	12
684	Pentair, Inc.	12
686	Nature Vision, Inc.	12
690	Smithfield Foods, Inc.	4
691	Sonoco Products Company	12

COMPANIES ADDED FOR 1989 EDITION

696	Anacomp, Inc.	9
699	Blount International, Inc.	12
700	Burlington Resources Inc.	12
701	CTS Corporation	12
712	Juno Lighting, Inc.	11
713	The Lamson & Sessions Co.	12
714	Lufkin Industries, Inc.	12
716	Molex Incorporated	6
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

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

776	Allegheny Technologies Incorporated	12
777	Alliant Techsytems Inc.	3

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
778	Baldor Electric Company	12
782	DIMON Incorporated	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

796	Allergan, Inc.	12
801	Intergraph Corporation	12
804	Storage Technology Corporation	12

COMPANIES ADDED FOR 1993 EDITION

806	Banta Corporation	12
811	Ruddick Corporation	9
812	Standard Commercial Corporation	3
813	Thermo Electron Corporation	12
814	Sensient Technologies Corporation	12

COMPANIES ADDED FOR 1994 EDITION

824	Louisiana-Pacific Corporation	12
825	Microsoft Corporation	6
828	Praxair, Inc.	12
829	Harrah's Entertainment, Inc.	12
832	Russell Corporation	12
833	The Scotts Company	9
834	Span-America Medical Systems, Inc.	9

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

Company Reference Number	*Company Name*	*Month of Fiscal Year End**

COMPANIES ADDED FOR 1997 EDITION

861	ADVO, Inc.	9
862	AGCO Corporation	12
863	Applied Materials, Inc.	10
864	Atmel Corporation	12
865	Automatic Data Processing, Inc.	6
866	B/E Aerospace, Inc.	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
885	Reebok International Ltd.	12
886	Rite Aid Corporation	2
887	Sysco Corporation	6
888	Solectron Corporation	8
889	Sybase, Inc.	12
890	Teradyne, Inc.	12
891	Tupperware Corporation	12
893	Viad Corp	12

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
904	Guidant Corporation	12
905	The Home Depot, Inc.	1
906	Ingram Micro Inc.	12
907	LSI Logic Corporation	12
908	Lexmark International, Inc.	12
910	Noble Energy, Inc.	12
911	Nordstrom, Inc.	1
912	PRIMEDIA Inc.	12
913	Pilgrim's Pride Corporation	9
914	QUALCOMM Incorporated	9
915	Rock-Tenn Company	9
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

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Company Reference Number	Company Name	Month of Fiscal Year End*
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	UNOVA, Inc.	12
948	Jacuzzi Brands, Inc.	9
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
979	SBC Communications 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
1018	Caesars Entertainment, Inc.	12
1019	The Pepsi Bottling Group, Inc.	12
1021	Pulte Homes, Inc.	12
1023	Reynolds American, Inc.	12
1024	Sanmina-SCI Corporation	9
1025	Sprint Corporation	12
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
1038	Charter Communications, 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
1048	Marsh Supermarkets, Inc.	3
1049	Maxim Integrated Products, Inc.	6
1050	MPS Group, Inc.	12
1051	Nextel Communications, Inc.	12
1052	Novellus Systems, Inc.	12
1053	Paychex, Inc.	5
1054	Perot Systems Corporation	12
1055	Quintiles Transnational Corp.	12
1056	Rockwell Collins, Inc.	9
1057	RPM International Inc.	5
1058	Scientific-Atlanta, Inc.	6
1059	Spherion Corporation	12
1060	Starwood Hotels & Resorts Worldwide, Inc.	12

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Company Reference Number	Company Name	Month of Fiscal Year End*
1061	Stryker Corporation	12
1062	Trump Hotels & Casino Resorts, Inc.	12
1064	Universal Health Services, Inc.	12
1066	Werner Enterprises, Inc.	12
1067	The Williams Companies, Inc.	12
1068	Wyndham International, Inc.	12
1069	Xilinx, Inc.	3
1070	XO Communications, Inc.	12

COMPANIES ADDED FOR 2003 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1072	Arkansas Best Corporation	12
1073	ArvinMeritor, Inc.	9
1074	Brinker International, Inc.	6
1075	CNF Inc.	12
1076	Coca-Cola Bottling Co. Consolidated	12
1077	Crompton Corporation	12
1078	Earthlink, Inc.	12
1079	Electronic Arts Inc.	3
1080	Flowers Foods, Inc.	12
1081	Giant Industries, Inc.	12
1083	Griffon Corporation	9
1084	The Manitowoc Company, Inc.	12
1085	Maxtor Corporation	12
1086	Mettler-Toledo International Inc.	12
1087	Regal Entertainment Group	12
1088	Ryder System, Inc.	12
1089	Swift Transportation Co., Inc.	12
1090	Thor Industries, Inc.	7
1091	Varco International, Inc.	12
1093	Xerox Corporation	12
1094	Yum! Brands, Inc.	12

COMPANIES ADDED FOR 2004 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
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

Company Reference Number	Company Name	Month of Fiscal Year End*
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, 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
1146	Wellpoint, Inc.	12
1147	Wheeling-Pittsburgh Corporation	12
1148	Whole Foods Market, Inc.	9

COMPANIES INCLUDED IN FIFTY-EIGHTH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

25	Amcast Industrial Corporation
88	Boise Cascade Corporation
137	Collins Industries, Inc.
206	Fedders Corporation
257	The Dial Corporation
259	Guilford Mills, Inc.
301	International Multifoods Corporation
303	Interstate Bakeries Corporation
312	Jostens, Inc.
314	Kmart Holding Corporation
447	Prab, Inc.
484	Scope Industries
587	WHX Corporation
721	Speizman Industries, Inc.
732	Waxman Industries, Inc.
752	IMC Global Inc.
800	Ferro Corporation
837	The Interpublic Group of Companies, Inc.

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

Company Reference Number	*Company Name*
898	Mandalay Resort Group
903	Flowserve Corporation
934	Metro-Goldwyn-Mayer Inc.
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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
	Accounting Research Bulletins (AICPA)	
43, Chapter 3A	*Restatement and Revision of Accounting Research Bulletins: Working Capital: Current Assets and Current Liabilities*	2.115, 2.160, 2.211
43, Chapter 4	*Restatement and Revision of Accounting Research Bulletins: Inventory Pricing*	2.54
43, Chapter 9C	*Restatement and Revision of Accounting Research Bulletins: Depreciation: Emergency Facilities—Depreciation, Amortization, and Income Taxes*	3.99
43, Chapter 11	*Restatement and Revision of Accounting Research Bulletins: Government Contracts*	3.125
45	*Long-Term Construction-Type Contracts*	3.125
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6	*Elements of Financial Statements*	3.10, 3.31
7	*Using Cash Flow Information and Present Value in Accounting Measurements*	2.17–2.19, 2.102–2.104, 2.117, 2.119, 2.163–2.165, 2.185–2.187, 2.213–2.215
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35	*Criteria for Applying the Equity Method of Accounting for Investments in Common Stock*	2.99
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150	*Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*	1.136, 2.270
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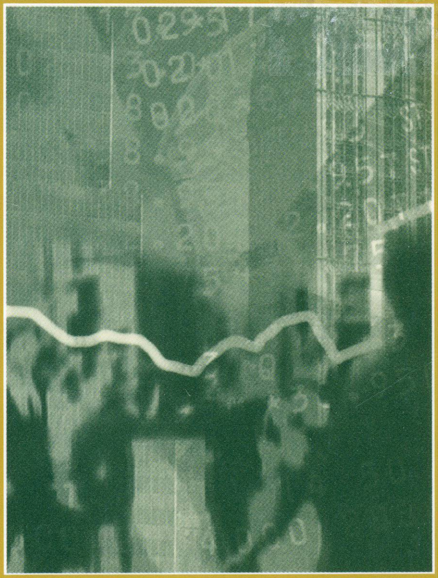

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