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Financial Report Survey
June 1991

Illustrations of Pro Forma Financial Statements That Reflect Subsequent Events

Leonard Lorensen, CPA

AICPA
American Institute of Certified Public Accountants

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Illustrations of Pro Forma Financial Statements That Reflect Subsequent Events
AICPA

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PREFACE

This publication is part of a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over twenty thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

Richard D. Walker
Director, Information Technology

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I

SCOPE AND PURPOSE OF THE SURVEY

This survey is intended primarily to help accountants of business enterprises present pro forma financial statements of the kind described below in annual reports of the enterprises. It is also intended to help independent auditors report on such information.

NATURE OF PRO FORMA FINANCIAL STATEMENTS

Pro forma financial statements are financial statements that show what the effects on historical financial statements might have been if an event that did not occur during the period covered by the historical statements had occurred then. With few exceptions, pro forma financial statements are presented to reflect events subsequent to the date of the latest balance sheet—that is, (1) events that occurred after that date but before the financial statements covering the period up to that date were issued, or (2) events that are likely to occur after issuance. Pro forma financial statements reflecting those kinds of events are the subject of this survey.

ACCOUNTING AND AUDITING REQUIREMENTS

Pro forma financial statements reflecting subsequent events are not discussed in any pronouncement of the Financial Accounting Standards Board (FASB) or its predecessors except FASB Statement No. 5, *Accounting for Contingencies*. Paragraph 11 states that "occasionally, in the case of a loss arising after the date of the financial statements where the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements." Paragraph 11 suggests disclosure of the data in the notes to the historical financial statements or in "pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements."

Presentation of pro forma financial statements reflecting subsequent events also is discussed in authoritative auditing pronouncements. U.S. Auditing Standards AU section 560, "Subsequent Events," paragraph .04 (AICPA, *Professional Standards*, vol. 1) states that "occasionally such an event [a subsequent event] may be so significant that disclosure can best be made by supplementing the historical financial statements with pro forma financial data giving effect to the event as

if it had occurred on the date of the balance sheet.'' Similar to SFAS No. 5, AU section 560, paragraph .05, states that "it may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.''

In contrast to FASB pronouncements, which recommend pro forma statements for only subsequent events that pertain to loss contingencies, AU section 560, paragraph .06, seems to recommend pro forma statements for subsequent events that do not pertain to loss contingencies in addition to subsequent events that do pertain to loss contingencies. Paragraph 6 gives as examples of such subsequent events, the sale of a bond or capital stock issue or the purchase of a business.

In September 1988, the Auditing Standards Board of the AICPA issued a Statement on Standards for Attestation Engagements (SSAE) titled *Reporting on Pro Forma Financial Information* (AICPA, *Professional Standards*, vol. 1, AT sec. 300). This SSAE provides guidance to independent auditors engaged to examine or review and report on pro forma financial statements that reflect subsequent events and that are presented outside the historical financial statements, either in the same document or in a document that incorporates by reference the historical statements. Paragraph 4 gives these examples of subsequent events for which pro forma financial statements might be presented:

- Business combination
- Change in capitalization
- Disposition of a significant portion of the business
- Change in the form of business organization
- Proposed sale of securities and the application of proceeds

Paragraph 6 states that such pro forma financial statements should disclose the significant assumptions used in developing the information and any significant uncertainties about those assumptions. Paragraph 6 also states that the pro forma statements should indicate that the information should be read in conjunction with related historical financial information and that the pro forma financial information is not necessarily indicative of the results that would have been attained had the event actually taken place earlier.

SOURCE OF ILLUSTRATIONS

Presentation of pro forma financial statements reflecting subsequent events in notes to the historical financial statements or outside the historical statements requires considerable judgment. An accountant of a business enterprise confronted with problems in presenting such statements can benefit from learning how other accountants are presenting them in practice. Similarly, an independent auditor confronted with problems in reporting on such statements presented outside the historical statements can benefit from learning how other independent auditors are reporting on them in practice. Accordingly, this publication presents excerpts from annual reports that illustrate presentation of such statements and reports on them by independent auditors. The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented herein were selected from the 1986/87, 1987/88, 1988/89, and 1989/90 annual report files. Appendix A provides information on how readers of this survey can obtain additional examples.

II

PRO FORMA STATEMENTS PRESENTED OUTSIDE HISTORICAL STATEMENTS IN THE ANNUAL REPORT—ACQUISITION OR DISPOSITION BY THE REPORTING ENTERPRISE OF AN INVESTMENT IN AN ENTERPRISE

Companies in NAARS that have presented pro forma financial statements reflecting subsequent events outside the historical financial statements in the annual report have with few exceptions presented the pro forma statements as additional columns in the historical statements rather than separately from the historical statements. The subsequent event reflected in the pro forma statements is commonly the acquisition or disposition by the reporting enterprise of an investment in an enterprise. A pro forma balance sheet is invariably presented, and some companies additionally present a pro forma income statement. A report by an independent auditor on the pro forma statements may also be presented.

Eight examples are presented below of pro forma statements reflecting acquisitions or dispositions by reporting enterprises of investments in enterprises. In all the examples, the pro forma statements were presented as additional columns in the historical statements. All eight companies presented pro forma balance sheets and two companies presented pro forma income statements in addition. Two examples, United Merchants and Manufacturers, Inc. and Vishay Intertechnology, Inc., include a report by an independent auditor on the pro forma statements.

AVON PRODUCTS, INC., DECEMBER 31, 1989

Avon Products, Inc.
Consolidated Balance Sheet
(In millions, except share data)

	Pro Forma 1989 (Unaudited) (Note 3)	1989
ASSETS		
Current assets		
Cash and equivalents	$90.7	$84.4
Accounts receivable (less allowance for doubtful accounts of $17.8, $21.1, and $20.5)	255.3	290.0

Consolidated Balance Sheet (continued)

	Pro Forma 1989 (Unaudited) (Note 3)	1989
Inventories	436.7	455.3
Prepaid expenses and other	90.4	100.1
Net assets of discontinued operations	89.9	89.9
Total current assets	963.0	1,019.7
Property, plant and equipment, at cost		
Land	23.2	25.3
Buildings and improvements	455.7	462.1
Equipment	460.1	464.0
	939.0	951.4
Less accumulated depreciation	462.6	465.1
	476.4	486.3
Long-term receivables and investments (less allowance of $66.3, $66.3, and $60.6)	126.6	126.6
Intangible assets (less accumulated amortization of $11.3, $19.5, and $11.4)	148.0	304.7
Other	159.6	160.7
Total assets	$1,873.6	$2,098.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Debt maturing within one year	$60.1	$164.0
Accounts payable	224.9	238.6
Accrued compensation	83.8	83.8
Other accrued liabilities	231.9	238.9
Retail sales and other taxes	78.0	78.0
Income taxes	163.4	160.1
Total current liabilities	842.1	963.4
Long-term debt	569.8	674.1
Other liabilities (including minority interest of $33.9, $33.9, and $35.4)	180.5	179.3
Deferred income taxes	52.9	52.9
Commitments and contingencies		
Shareholders' equity		
Preferred stock, par value $1.00—authorized: 25,000,000 shares; issued and outstanding—18,000,000 shares	18.0	18.0
Common stock, par value $.50—authorized: 200,000,000 shares; issued—83,624,021 and 81,014,560 shares	41.8	41.8
Additional paid-in capital	907.1	907.1
Retained earnings	68.0	68.0
Translation adjustments	(147.6)	(147.6)
Treasury stock, at cost—27,136,085 shares	(659.0)	(659.0)
Total shareholders' equity	228.3	228.3
Total liabilities and shareholders' equity	$1,873.6	$2,098.0

Avon Products, Inc.
Notes to Consolidated Financial Statements

3. Business Changes

Sale of Parfums Stern Inc. On January 3, 1990, Avon sold Parfums Stern Inc. for $210.0 million in cash and an adjustment to be determined based upon net asset value. This sale, which did not result in any significant gain or loss, will be recognized in 1990. The accounts of Parfums Stern have

been included in the consolidated financial statements from November 1, 1987. The results of operations are as follows:

(In millions)	Year Ended December 31		
	1989	1988	1987
Net sales	$156.6	$131.9	$21.0
Earnings (loss) before taxes	$ 13.2	$ 2.2	$(2.1)

The net proceeds of this sale was used to reduce debt.

The effect of the sale of Parfums Stern and the repayment of debt from the proceeds is reflected in the unaudited pro forma balance sheet on page 15 of this report. Pro forma adjustments include the proceeds of the sale; the repayment of debt; the sale of assets, primarily goodwill; and debt and other liabilities assumed by the buyer.

BIOTECHNICA INTERNATIONAL, INC., DECEMBER 31, 1987

Consolidated Statements of Financial Position

	Pro Forma December 31, 1987 (Note 12)	December 31, 1987
ASSETS		
Current assets:		
Cash and cash equivalents	$33,693	$10,896
Cash held in escrow, restricted	2,190	2,190
Accounts receivable, trade	1,080	907
Inventories	1,268	120
Prepaid expenses and other	154	144
Total current assets	38,385	14,257
Property, plant and equipment, at cost (notes 4 and 7)	12,625	10,569
Less accumulated depreciation	2,561	2,561
Net property, plant and equipment	10,064	8,008
Investments (notes 5 and 12)	276	526
Other assets, net	542	542
	$49,267	$23,333
LIABILITIES AND SHAREHOLDERS' EQUITY (Deficit)		
Current liabilities:		
Current portion of long-term debt (note 7)	$ 46	$ 46
Accounts payable	403	403
Accrued expenses	887	887
Customer advances and deferred revenue	577	72
Total current liabilities	1,913	1,408
Long-term debt, net (note 7)	38,013	23,013
Other non-current liabilities	1,094	665
Total liabilities	41,020	25,086
Commitments (notes 11 and 12)		
Shareholders' equity (deficit) (notes 8 and 9):		
Common stock, $0.01 par value; 20,000,000 shares authorized; 5,177,454 and 5,131,704 shares issued and outstanding as of December 31, 1987 and 1986 (6,995,636 shares on a pro forma basis)	70	52
Additional paid-in capital	35,400	25,418
Accumulated deficit	(27,223)	(27,223)
Total shareholders' equity (deficit)	8,247	(1,753)
	$49,267	$23,333

Notes to Consolidated Financial Statements

12. Subsequent Events

Private Placement Financing. Subsequent to December 31, 1987, the Company entered into a two-phase private financing arrangement with a major U.S. institutional investor that is expected to provide up to $50 million to the Company over the next four years. The first phase of the arrangement totaling $25 million closed on January 27, 1988 and consisted of: (1) $10 million equity purchase, consisting of 1,818,182 shares of common stock at $5.50 per share, giving the institutional investor a 26% equity position in the Company; and (2) $15 million convertible subordinated notes due in 1998 which are convertible into common stock at $5.50 per share. Interest at the rate of 8.75% is payable annually either in cash or in additional convertible subordinated notes at the Company's option.

Acquisitions. On January 5, 1988, the Company acquired the assets of McAllister Seed Company (McAllister). McAllister produces and markets proprietary varieties of seed corn and other field seed crops through a dealer network in Iowa, Missouri, and Illinois. The purchase price was approximately $2.9 million, of which $2.5 million was paid in cash with the balance payable over the next five years.

The pro forma effects of these two January 1988 transactions are summarized and presented in the Consolidated Statement of Financial Position under the heading pro forma, as though the transactions had occurred on December 31, 1987. The effect of the McAllister acquisition, had it occurred at the beginning of 1987, would have been immaterial to the net loss of the Company for the year ended December 31, 1987.

CARTER HAWLEY HALE STORES, INC., AUGUST 1, 1987

Carter Hawley Hale Stores, Inc.
Consolidated Balance Sheet

	August 1, 1987	
	Pro Forma (Unaudited)	Historical
	(In thousands)	
ASSETS		
Current assets		
Cash	$ 14,861	$ 14,861
Accounts receivable, net	328,529	397,210
Merchandise inventories	432,866	432,866
Deferred income taxes	12,258	12,258
Other current assets	28,847	28,847
	817,361	886,042
Property and equipment, net	509,323	502,083
Investment in finance subsidiaries	47,647	47,647
Other assets	62,911	33,428
Net assets of the specialty store divisions		350,438
	$1,437,242	$1,819,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and current installments	$294,711	$ 6,342
Accounts payable	219,721	219,721
Accrued liabilities	153,986	219,340
Dividends payable		
Payable to finance subsidiary	83,050	83,050
Current income taxes	12,119	12,119
	763,587	540,572

	August 1, 1987	
	Pro Forma (Unaudited)	Historical
	(In thousands)	
Long-term debt	$ 689,380	$ 590,606
Capital lease obligations	105,772	112,042
Other liabilities	42,217	42,217
Long-term deferred income taxes	88,429	88,429
Redeemable preferred stock $5 par value, stated at redemption value of $300 per share		300,000
Common stock, $5 par value ($.01 pro forma par value)	222	101,837
Other paid-in capital	599,953	174,404
Accumulated earnings (deficit)	(827,371)	(130,469)
Stock incentive plan contra	(24,947)	
	$1,437,242	$1,819,638

See accompanying summary of significant accounting policies and financial review.

Carter Hawley Hale Stores, Inc.
Consolidated Statement of Common Stock and Other Shareholders' Equity

	Par Value Common	Other Paid-in Capital
	(Dollar amounts in thousands)	

●●●●

	Par Value Common	Other Paid-in Capital
Balance, August 1, 1987 (Historical)	$101,837	$174,404
Pro forma adjustments (Unaudited)		
Change in common stock par value	(101,633)	101,633
Issuance of stock under the 1987 Stock Incentive Plan	18	24,929
Conversion of Redeemable preferred stock to common and preferred stock of The Neiman-Marcus Group		298,987
Balance, August 1, 1987 (Pro forma-Unaudited)	$ 222	$599,953

	Accumulated Earnings	Stock Incentive Plan Contra
	(Dollar amounts in thousands)	

●●●●

	Accumulated Earnings	Stock Incentive Plan Contra
Balance, August 1, 1987 (Historical)	$(130,469)	
Pro forma adjustments (Unaudited)		
Issuances of stock under the 1987 Stock Incentive Plan		$ (24,947)
Distribution of net assets of The Neiman-Marcus Group	(350,438)	
Restructuring dividend $17 per share	(346,464)	
Balance, August 1, 1987 (Pro forma-Unaudited)	$(827,371)	$ (24,947)

●●●●

See accompanying summary of significant accounting policies and financial review.

Summary of Significant Accounting Policies

The Restructuring

The Company has been a retailer of merchandise through department stores and specialty stores. Its department store divisions comprise The Broadway-Southern California, The Broadway-Southwest, Emporium Capwell, Thalhimers, and Weinstock's; and its specialty store divisions comprise Bergdorf Goodman, Contempo Casuals, and Neiman-Marcus. On August 26, 1987, the Company's shareholders approved a plan of restructuring (the Restructuring) in which the Company was reorganized into two separate companies by the distribution to the Company's shareholders of stock of a newly formed Delaware corporation, The Neiman-Marcus Group, which will operate the specialty store divisions. The Company will continue to operate the department store divisions.

All public common shareholders of the Company, including participants in the Company's profit sharing plan, retained their stock in the Company and also received $17 in cash and a share of stock in The Neiman-Marcus Group for each Company share held. The convertible preferred shares of the Company (held by General Cinema Corporation) were exchanged for shares in The Neiman-Marcus Group. General Cinema received no cash or shares of the Company in respect of its preferred shares. Senior management of the Company received no cash or shares of The Neiman-Marcus Group in respect of their existing holdings, except for shares held in the profit sharing plan, but, rather, additional common shares of the Company. The Restructuring allowed certain shareholders, including participants in the profit sharing plan, to make elections as to what cash or securities they would hold after the effective time of the Restructuring and incorporated a market formula designed to provide all shareholders with essentially equivalent value.

It is estimated that a total of $91.5 million in direct costs relating to the restructuring program will be incurred, of which $25.0 million was expensed in 1986 and $24.0 million, less $8.3 million allocated to The Neiman-Marcus Group, was expensed in 1987. The remaining $42.5 million of direct costs relate to the issuances of new debt and will be capitalized and amortized over the life of the new debt. At August 1, 1987, $12.0 million of direct costs had been capitalized. On a pro forma basis, other assets reflect the capitalization of the remaining $30.5 million of direct costs. In addition, $23.1 million of other restructuring costs relating primarily to certain shared costs and costs of functional consolidations and strategic programs were expensed in 1987. On a pro forma basis, accrued liabilities reflect the assumed payment of $65.4 million of direct and other restructuring costs.

Basis of Reporting

The pro forma Consolidated Balance Sheet presents the financial position of the Company assuming the Restructuring had been completed as of August 1, 1987. The pro forma Consolidated Balance Sheet does not purport to be indicative of the financial position which would actually have been attained if the Restructuring had been completed on August 1, 1987 nor does it purport to be indicative of the financial positions which may be attained in the future. The significant adjustments required to reflect the Restructuring are set forth in the related Financial Review footnotes.

In the opinion of the Company's management, the unaudited Financial Statements for the twenty-six week period ended August 2, 1986 contain all adjustments, including normal recurring adjustments and the restatement for the change in accounting for computer software development costs, necessary for the amounts shown to be fairly stated. Due to the seasonal nature of the retail business wherein a significant portion of sales for the year are incurred in the Christmas season, the Company follows the practice of allocating certain fixed buying and occupancy costs within the Company's fiscal year in order to match these expenses with the resulting sales revenue. A deferral of $28.4 million of such costs is reflected in the operating results of the Company for the six months ended August 2, 1986. No such deferral was recorded at August 1, 1987.

Financial Review

Interest Expense and Discount. On a pro forma basis, assuming the Restructuring was completed as of January 31, 1987, interest expense for the twenty-six weeks ended August 1, 1987 would have been $71.9 million.

Accounts Receivable and Credit Operations. Accounts receivable at year end were as follows:

	1987	
	Pro Forma (Unaudited)	Historical
Customer receivables	$401.9	$401.9
Other receivables		
Income taxes	27.8	27.8
The Neiman-Marcus Group	32.2	54.7
Sale of Denver stores		46.2
Other	22.3	22.3
	484.2	552.9
Less		
Customer receivables sold to finance subsidiaries (less $16.6, $16.6, and $30.2 withheld pending collection and settlement of discount)	149.6	149.6
Allowance for doubtful accounts	6.1	6.1
	155.7	155.7
Accounts receivable, net	$328.5	$397.2

The receivable from The Neiman-Marcus Group includes $5.6 million, net of tax, for shared restructuring costs, other than direct transaction costs, $26.6 million receivable under the Tax Allocation Agreement, and $22.5 million in settlement of certain intercorporate indebtedness in accordance with the Restructuring. On a pro forma basis, the receivable from The Neiman-Marcus Group reflects the receipt of $22.5 million subsequent to August 1, 1987. The remaining amounts will be paid by The Neiman-Marcus Group as the costs or taxes are paid by the Company. On a pro forma basis, the receivable on the sale of the Denver stores reflects the receipt of $46.2 million subsequent to August 1, 1987, which was used to reduce debt.

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Property and Equipment. Property and equipment at year end were as follows:

	1987	
	Pro Forma (Unaudited)	Historical
	(In millions)	
Land	$ 37.8	$ 37.8
Buildings and improvements	228.9	204.1
Leasehold improvements	104.8	104.8
Fixtures and equipment	413.2	413.2
Construction in progress	6.2	6.2
Leased property under capital leases, primarily buildings	158.2	175.8
	949.1	941.9
Less accumulated depreciation and amortization		
Owned property	366.1	354.1
Leased property under capital leases	73.7	85.7
	439.8	439.8
Property and equipment, net	$509.3	$502.1

Pro forma property and equipment reflects the properties and capital leases acquired in connection with the real estate financing facility.

Property and equipment at August 1, 1987 includes department store assets held for sale with a net carrying value of $18.2 million.

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Long-Term Debt. Long-term debt at year end was:

	1987	
	Pro Forma (Unaudited)	Historical
	(In millions)	
Senior debt		
7 1/2–8 3/4 % notes due 1988–2008		$ 21.5
9–9.95 % notes due 1988–2010	$ 13.9	25.6
10.69 % notes due 1987	320.3	
Other	5.2	6.5
	339.4	53.6
Notes maturing within one year at weighted average interest rate of 7.3 percent and 7.0 percent		537.0
Subordinated debt		
12 1/4% notes due 1996	125.0	
12 1/2% debentures due 2002	225.0	
Long-term debt	$689.4	$590.6

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At August 1, 1987, the Company had outstanding $537.0 million of notes payable maturing within one year, which have been reclassified as long-term debt to reflect the subsequent refinancing of these borrowings on a long-term basis. The refinancings included $347.2 million available under a real estate financing facility, of which $320.3 million has been financed, and $350.0 million of subordinated debt issuances which have been reflected in pro forma long-term debt. In addition, pro forma long-term debt reflects the retirement of certain mortgages in connection with the real estate financing facility.

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Bank Credit Arrangements. At August 1, 1987, the Company and Carter Hawley Hale Credit Corp. (Credit Corp.) shared a credit agreement that provided $500.0 million of loan commitments at variable rates of interest.

As part of the restructuring the credit agreement and lines of credit were cancelled subsequent to August 1, 1987 and were replaced by the following bank facilities.

Up to $400.0 million has been made available to the Company under a one-and-one-half-year loan facility (the Bridge Loan Facility), bearing interest at variable rates, and maturing December 31, 1988. The funds available under this facility are reduced by funds obtained under the real estate financings. On a pro forma basis, $80.0 million was borrowed under this facility at August 1, 1987.

Up to $650.0 million has been made available to the Company through a five-year working capital and letter of credit facility (the Working Capital Facility), bearing interest at variable rates, and maturing in 1992. The Working Capital Facility places certain restrictions on the level of available funds under the facility and is permanently reduced by $40.0 million annually beginning December 31, 1988. On a pro forma basis, $210.2 million was borrowed under this facility at August 1, 1987.

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Redeemable Preferred Stock. The preferred stock at August 1, 1987 was convertible at the holder's option into 12,227,407 shares of common stock of the Company.

As part of the Restructuring the preferred stock was converted to adjustable voting common shares and adjustable voting preferred shares of The Neiman-Marcus Group. On a pro forma basis, the conversion resulted in an increase in other paid-in capital of $299.0 million, net of $10 million of preferred stock issuance costs included in other assets.

The authorized preferred stock of the Company, consisting of 5 million shares $5 par value at August 1, 1987, was subsequently changed to 5 million shares $ .01 par value.

NUCLEAR DATA, INC., FEBRUARY 28, 1989

Consolidated Balance Sheets
Nuclear Data, Inc. and Subsidiaries

	Pro Forma as of February 28, 1989—Note B (Unaudited)	February 28, 1989
ASSETS		
Current assets		
Trade accounts receivable, less allowances (1989—$250,000; 1988—$293,000)	$ 4,382	$ 4,382
Inventories:		
Work-in-process	948	948
Materials	531	531
	1,479	1,479
Prepaid expenses and sundry accounts	702	1,041
Net assets of discontinued operation (note B)	—	4,867
TOTAL CURRENT ASSETS	6,563	11,769
Other assets	1,513	1,513
BUILDING AND EQUIPMENT (note E):		
Building and improvements	1,978	1,978
Equipment	7,423	7,423
	9,401	9,401
Less allowances for depreciation	6,095	6,095
Total Building and Equipment	3,306	3,306
Total assets	$11,382	$16,588
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Notes payable and current portion of long-term debt (note C)	$ 1,669	$10,250
Trade accounts payable	2,353	3,970
Other accrued expenses	1,531	2,908
Retained liabilities of discontinued operation (note B)	1,376	1,376
Redeemable Common Stock (note B)	187	187
TOTAL CURRENT LIABILITIES	7,116	18,691
Deferred gain on sale of building (note E)	487	814
Long-term liabilities		
Long-term debt, less current portion (note C)	1,445	695
Deferred pension liability (note F)	464	464
Total long-term liabilities	1,909	1,159
SHAREHOLDERS' EQUITY (DEFICIT) (note D)		
Preferred Stock, without par value:		
Authorized—250,000 shares; none issued	—	—
Common Stock, par value $ .50 per share;		
Authorized — 4,000,000 shares	1,262	1,262
Additional paid-in capital	11,252	11,252
Treasury stock, at cost	(244)	(244)
Retained earnings (deficit)	(10,372)	(16,318)
Deferred compensation related to 1980 Stock Award Plan (deduction)	(28)	(28)
Total shareholders' equity (deficit)	1,870	(4,076)
Total liabilities and shareholders' equity (deficit)	$11,382	$16,588

Notes to Consolidated Financial Statements
Nuclear Data, Inc. and Subsidiaries

Note B—Discontinued Operation

In March 1989, the Company sold its Instrumentation Division (the Division) to Canberra Industries, Inc. (Canberra) for an estimated cash price of approximately $10,367,000, representing a premium of $5,500,000 over book value. In addition, the Company could receive contingent payments of up to $1,200,000 over a three-year period based upon the future operating profits of the combined operations of the Division and Canberra's nuclear products division. Retained liabilities of discontinued operation include certain payroll, tax, bonus, royalty, commission, legal and audit and employee pension, and welfare benefit plan accruals.

The sale of the Division, receipt of proceeds of the sale and of loans from Canberra, and the gain on sale are summarized as follows:

Estimated proceeds of sale, less expenses of sale	$10,028,000
Net assets sold	(4,867,000)
Net gain from sale of Division	$ 5,161,000
Estimated proceeds of sale	$10,367,000
Proceeds of loan from Canberra (see Note C)	750,000
	$11,117,000
Disbursements of cash:	
Repayment of notes payable and long-term liabilities	$ 8,581,000
Payment of accounts payable and accrued expenses	1,956,000
Escrow account related to certain accrued expenses	580,000
	$11,117,000

The pro forma unaudited consolidated balance sheet as of February 28, 1989 gives effect to the sale of the Division as if such sale had been consummated on February 28, 1989. Adjustments reflect the estimated gain on the sale and payment of various obligations.

Total revenues of the Division amounted to approximately $22,313,000, $25,650,000, and $31,162,000 for the years ended February 28/29 of 1989, 1988, and 1987, respectively. Interest expense of approximately $646,000, $636,000, and $824,000 for the years ended February 28/29 of 1989, 1988, and 1987, respectively, has been allocated to discontinued operations based on total assets net of intercompany receivables.

PHLCORP, INC., DECEMBER 31, 1987

PHLCORP, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 1987 and 1986
(Dollars in thousands, except par value)

	Pro Forma 1987 (Unaudited)	1987
ASSETS		
Cash and cash equivalents	$102,916	$ 72,661
Mortgage loans, net	15,079	14,626
Investments	318,750	16,444
Trade and other receivables, net	83,059	42,710
Inventories	17,931	17,931
Investments in affiliates	2,377	27,229
Property and equipment, net	12,468	12,468
Other assets	27,333	13,328
Total	$579,913	$217,397

	Pro Forma 1987 (Unaudited)	1987
LIABILITIES		
Accounts payable, other liabilities and deferred credits	$ 78,477	$ 51,202
Income taxes	7,825	7,825
Life, accident, health, and casualty reserves and other policy benefits	298,687	10,732
Liability for unredeemed trading stamps	141,467	141,467
Total liabilities	526,456	211,226
Minority interest	28,877	1,591
SHAREHOLDERS' EQUITY		
Common stock, par value $1 per share; 40,000,000 shares authorized, 13,510,080 and 13,510,000 issued and outstanding	13,510	13,510
Additional paid-in capital	24,965	4,965
Net unrealized gain (loss) on marketable equity securities	(21)	(21)
Retained earnings (deficit) (since November 13, 1986)	(13,874)	(13,874)
Total shareholders' equity	24,580	4,580
Total	$579,913	$217,397

PHLCORP, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(See Introduction to Financial Statements)

NOTE 1. Background and Basis of Presentation

On December 24, 1987, PHLCORP entered into an agreement, subject to certain conditions, to sell its principal life insurance subsidiary, The College Life Insurance Company of America ("College Life"), to an unaffiliated company. The aggregate purchase price will be approximately $42,325,000. Prior to the closing, PHLCORP will acquire from College Life certain mortgages, investments in affiliates, and certain other assets for cash generally equal to the carrying value of such assets in College Life's statutory financial statements (approximately $25 million). The Company will also assume certain obligations applicable to College Life. As a result of the quasi-reorganization accounting concepts applicable to PHLCORP, as described below, the gain on sale (estimated at approximately $20 million based on December 31, 1987 balances) will be reflected directly in shareholders' equity rather than through results of operations. As a result of the Company's continuing interest in the life insurance business through Baldwin Life Insurance Company ("Baldwin Life"), the life insurance segment will not constitute a discontinued operation for financial reporting purposes and the Company's consolidated financial statements will not be reclassified to reflect the disposition.

At December 31, 1987, the excess of liabilities over assets held for disposition applicable to College Life is reflected in the balance sheet under the caption "Accounts payable, other liabilities and deferred credits" (see Note 9).

NOTE 6. Investments in Affiliates

A. Empire Insurance Company. The Company owned, directly and indirectly, surplus notes issued by Empire Mutual Insurance Company (now Empire Insurance Company) ("Empire"), which were recorded at $24,852,000, the Company's cost, at December 31, 1987 and 1986. Effective as of January 1, 1988, as more fully described below, Empire became a 70% owned consolidated subsidiary.

Empire, a New York-domiciled property and casualty insurer, primarily writes automobile liability and automobile physical damage insurance and commercial lines. Empire owns approximately 85.5% of the outstanding common stock of Allcity Insurance Company ("Allcity"). Empire

and Allcity (collectively, the "Empire Group") together issue insurance policies to medallion taxi owners licensed by the Taxi and Limousine Commission of New York City and owners of non-medallion automobiles engaged in livery operations in New York City and property and casualty insurance underwriting activities.

Direct premiums written for policies issued by the Empire Group were $189,121,000 and $174,123,000 for the years ended December 31, 1987 and 1986, respectively.

The Empire surplus notes had been issued in 1980 in accordance with a financing agreement entered into by Baldwin-United and certain of its subsidiaries pursuant to a New York state court approved plan of rehabilitation for the Empire Group. Under the agreement, the noteholders received an aggregate of 75.1% of Empire's net income or loss determined pursuant to statutory accounting principles by quarterly adjustment to the principal amount of the notes. No part of the principal amount of the notes could be paid, however, without the consent of the New York Superintendent of Insurance. The notes had no due dates and did not form a part of the legal liabilities of Empire.

Effective January 1, 1988, following approval by its policyholders and the New York Superintendent of Insurance, Empire converted its form of capitalization from a mutual company to a stock company. Under the plan of conversion, the noteholders in the aggregate were entitled to approximately 77% of the common shares issued by the converted company. As a result of the effectiveness of the plan of conversion and the exchange of surplus notes for Empire common shares, Empire became a 70% owned consolidated subsidiary of PHLCORP. (A surplus note exchangeable for the remaining 7% is held by a subsidiary of the Company, whose assets, liabilities, and business are under the control of the Wisconsin Insurance Commissioner.

For financial reporting purposes the transaction will be accounted for as a purchase by the Company, as of January 1, 1988, at consideration equal to the recorded amount of the Company's investment in Empire's surplus notes.

See Note 17 for certain pro forma financial data reflecting this and certain other transactions.

NOTE 17. Pro Forma Information (Unaudited)

As described elsewhere herein, effective January 1, 1988, Empire was converted from a mutual company to a stock company. As a result of the effectiveness of Empire's conversion plan, the Company received approximately 70% of Empire's outstanding common shares (excluding Empire common shares that will be under the control of the Wisconsin Insurance Commissioner (see Note 18)) in exchange for its surplus notes of Empire and Empire became a 70% owned consolidated subsidiary of the Company. Because of the significance of this transaction to the Company's consolidated financial position, the Company has presented an unaudited pro forma consolidated balance sheet at December 31, 1987 which gives pro forma effect to the Company's exchange of Empire surplus notes for common shares (including preliminary allocation of the purchase price to the acquired Empire assets and liabilities) and the sale of College Life as described in Note 1, as if such transactions had occurred on December 31, 1987.

The pro forma summarized income statement data below give pro forma effect to: (i) the exchange of the Company's investment in Empire's surplus notes for 70% of Empire's common shares; (ii) the agreement for the sale of College Life; and (iii) the investment of the proceeds from the sales of T.V. Travel and College Life in short-term investments, as if all such transactions had occurred on January 1, 1987. (Amounts in thousands, except per share amounts.)

	For the Year Ended December 31, 1987
Revenues	$415,007
Income from continuing operations	$ 1,923
Income per common share from continuing operations	$ 0.14

The unaudited pro forma data above should not be considered indicative of future results of operations or the results of operations that would have resulted if the transactions had actually occurred at the beginning of the period presented.

SAMSON ENERGY COMPANY LIMITED PARTNERSHIP, DECEMBER 31, 1987

Samson Energy Company Limited Partnership
Balance Sheets

	1987	Pro Forma (Note 2) 1987
ASSETS		
Current Assets:		
Cash	$ 43	$ 805
Accrued oil and gas sales	3,072	4,763
Prepaid drilling costs	1,090	1,370
Total current assets	4,206	6,939
Net Oil and Gas Properties, utilizing the full cost method	33,576	49,695
Organization and Software Costs, net of accumulated amortization of $631,869 and $787,081	215	215
Deferred Offering Costs	725	
	$38,724	$56,850
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable–affiliate	$ 355	$ 490
Accrued liabilities	161	189
Total current liabilities	517	679
Long-term Debt	11,000	11,000
Notes payable–affiliate	1,927	3,114
Purchaser Payments in Excess of Gas Sales	2,180	2,894
Deferred Revenue	128	128
Partners' Capital	22,971	39,033
	$38,724	$56,850

Samson Energy Company Limited Partnership
Statements of Operations

	For the Year Ended December 31,	
	1987	Pro Forma (Note 2) 1987 (Unaudited)
REVENUES		
Oil and gas sales	$9,090	$16,674
Interest		96
	9,090	16,770
COSTS AND EXPENSES		
Oil and gas production	2,263	4,279
Organization and offering costs	431	431
General and administrative	623	1,092
Depreciation, depletion and amortization of oil and gas properties	4,409	7,294
Amortization of organization and software costs	155	155
Interest	736	1,388
	8,618	14,640
Net Income (Loss)	$ 471	$ 2,130
Unitholders' Net Income (Loss) Per Unit	$ 0.23	$ 0.60

Notes to Financial Statements
Samson Energy Company Limited Partnership
For Years Ended December 31, 1985, 1986, and 1987

2. Acquisitions and 1988 Exchange Offer

Effective January 1, 1988, SAM consummated the 1988 Exchange Offer, whereby SAM issued 1,409,449 units in exchange for the oil and gas properties and other net assets held by twelve affiliated limited partnerships (the "Exchange Partnerships"). Based on the fair value of the Units issued the purchase price, net of offering costs of $725,000, was $16,062,000. This transaction will be accounted for under the purchase method and, accordingly, results of operations of the Exchange Partnerships will be included in SAM's results of operations from the effective date of the transaction. After consummation of this transaction, SPI, along with affiliates, owns 914,291 units of SAM.

Due to the significance of the 1988 Exchange Offer, SAM has included, along with its historical financial statements, an audited pro forma balance sheet which includes the historical account balances as of December 31, 1987 and gives effect to the Exchange Offer as if it occurred on that date. SAM has also included an unaudited pro forma statement of operations which includes SAM's 1987 historical results of operations, and gives effect to (1) the 1987 Acquisitions as if such purchases were effective on January 1, 1987 and (2) the 1988 Exchange Offer as if such Exchange Offer was effective on January 1, 1987.

The table below shows unaudited summary pro forma results of operations for SAM as if the 1987 Acquisitions and the 1988 Exchange Offer had occurred at the beginning of the respective periods presented.

	1986	1987
Revenues	$16,898,712	$16,770,984
Net income (loss)	($12,558,389)	$ 2,130,233
Unitholders' net income (loss) per unit	($ 3.57)	$ 0.60

The accompanying audited pro forma balance sheet as of December 31, 1987, the unaudited pro forma statement of operations for 1987 and the summary unaudited pro forma results of operations for 1987, shown above, include the following adjustments (similar adjustments were included in the summary unaudited pro forma results of operations for 1986):

a. The assets and liabilities of the Exchange Partnerships were recorded at their fair value, which approximated the historical amounts, except for the oil and gas properties, which were reduced by $2,263,000.

b. The notes payable, affiliate of two of the Exchange Partnerships have been reduced by $394,000 by the general partner, as a condition of the 1988 Exchange Offer, and have been recorded as a contribution to limited Partners' capital.

c. The notes payable, affiliate have been classified as long-term because they are assumed to be refinanced with borrowings under a new credit agreement (See Note 3).

d. Depreciation, depletion, and amortization has been decreased by $1,135,000 to give effect to combining SAM, the 1987 Acquisitions and the 1988 Exchange Offer. The capitalized costs of oil and gas properties are depleted on the composite units-of-production method using estimates of proved reserves.

e. A $7,895,000 write-down of oil and gas properties recorded by the Exchange Partnerships in 1986 was reversed because the pro forma combined present value of future net cash flow of SAM, the 1987 Acquisitions and the Exchange Partnerships exceeded the pro forma combined capitalized costs.

f. General and administrative expenses were reduced by $265,000 to estimated amounts which would have been incurred.

g. Interest expense was increased by $323,000 for the assumed borrowings to fund the offering costs and the 1987 Acquisitions.

The pro forma results of operations of SAM are not necessarily indicative of the results that would have been reported had the transactions actually taken place at the beginning of the periods specified, nor is it necessarily indicative of SAM's future results.

UNITED MERCHANTS AND MANUFACTURERS, INC., JUNE 30, 1988

United Merchants and Manufacturers, Inc. and Subsidiaries
Consolidated Balance Sheet

	June 30, 1988	
	Pro Forma Note 1	Historical
	(000 omitted)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,286	$ 1,286
Receivables—net (Note 6)	80,619	80,619
Inventories (Note 1)		
Raw materials	24,275	24,275
Goods in process, including greige goods	35,486	35,486
Finished goods	80,541	80,541
	140,302	140,302
Prepaid expenses and other current assets	9,066	9,066
Assets held for sale (Notes 1 and 3)	6,324	61,598
Receivables from sale of operations (Notes 3 and 5)	10,948	10,948
Total Current Assets	248,545	303,819
Property, Plant and Equipment (Notes 1 and 7)		
Land and buildings	26,139	26,139
Machinery, equipment and other	80,233	80,233
Construction in progress	3,406	3,406
	109,778	109,778
Less accumulated depreciation and amortization	54,255	54,255
	55,523	55,523
Other Assets and Deferred Charges (Note 1)	48,923	38,923
Goodwill (Notes 1 and 3)	59,062	59,062
	$412,053	$457,327
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes and advances payable—foreign (Note 5)	$ 8,189	$ 8,189
Current maturities of long-term debt (Note 7)	3,501	3,501
Trade payables	28,449	28,449
Accrued expenses and sundry liabilities (Note 15)	25,432	25,432
Income taxes payable (Note 8)	3,735	2,435
Total Current Liabilities	69,306	68,006
Long-term Debt, net of current maturities (Note 7)	228,056	316,934
Other Long-Term Liabilities	2,864	2,864
Minority Interest (Note 3)	7,582	7,582
Stockholders' Equity (Notes 1, 7, 10 and 11)		
Common stock, par value $1 per share; 20,000,000 shares authorized; shares outstanding: 9,101,000 at June 30, 1988 and 9,098,000 at June 30, 1987 (excluding 22,800 shares held in treasury as of both dates)	9,101	9,101
Capital in excess of par value	49,374	49,374
Retained earnings	51,148	8,844
Unrealized foreign currency translation adjustments	(1,378)	(1,378)
Notes receivable arising from stock purchase agreement	(4,000)	(4,000)
	104,245	61,941
	$412,053	$457,327

United Merchants and Manufacturers, Inc. and Subsidiaries
Consolidated Statement of Operations

	Year Ended June 30, 1988	
	Pro Forma Note 1	Historical
	(000 omitted)	
Net sales	$646,313	$646,313
Cost of sales	504,664	504,664
Selling, general and administrative expenses	159,725	159,725
Loss from termination or relocation of certain operations (Note 4)	4,200	4,200
	668,589	668,589
Operating income (loss)	(22,276)	(22,276)
Interest expense	(41,608)	(41,608)
Interest income	1,661	1,661
Net interest expense	(39,947)	(39,947)
Gain (loss) on sale of divisions and joint ventures (Notes 3 and 5)	41,771	(1,833)
Other income—net (Note 12)	1,423	1,423
Loss from continuing operations before income taxes and minority interest	(19,029)	(62,633)
Provision for income taxes (Note 8)	2,380	1,080
	(21,409)	(63,713)
Minority interest in net earnings (losses) of subsidiaries	(110)	(110)
Loss from continuing operations	(21,299)	(63,603)
Discontinued operations (Note 3)		
Net earnings (loss) prior to sale	2,806	2,806
Gain on sale	23,751	23,751
Net earnings (loss)	$ 5,258	$ (37,046)
Average common and common equivalent shares outstanding (Note 16)	9,106	9,106
Earnings (loss) per share (Note 13)		
Loss from continuing operations—Primary	$ (2.34)	$ (6.98)
Net earnings (loss)—Primary	0.58	(4.07)

United Merchants and Manufacturers, Inc. and Subsidiaries
Consolidated Statement of Changes in Cash

	Year Ended June 30, 1988	
	Pro Forma Note 1	Historical
	(000 omitted)	
Cash Generated By (Used For):		
Operating Transactions:		
Net Earnings (Loss)	$ 5,258	$ (37,046)
Add back items not requiring or providing funds in the current period:		
Depreciation and amortization	13,527	13,527
Minority interest	(250)	(250)
Non-cash portion of termination or relocation of certain operations	4,200	4,200
	22,735	(19,569)

	Year Ended June 30, 1988	
	Pro Forma Note 1	Historical
	(000 omitted)	
Decrease (increase) in:		
Receivables	$ 9,391	$ 9,391
Inventories	(3,139)	(3,139)
Prepaid expenses and other current assets	(2,569)	(2,569)
Other assets	1,516	1,516
Increase (decrease) in:		
Trade payables	(6,073)	(6,073)
Accrued expenses and sundry liabilities	2,866	2,866
Income taxes payable	1,150	(150)
Other–net	(3,521)	(3,521)
Net Cash Generated by (Used for) Operating Transactions**	22,356	(21,248)
Investing Transactions:		
Additions to property, plant and equipment	(11,402)	(11,402)
Disposition of property, plant and equipment	2,459	2,459
Sale of Divisions or Joint Ventures:		
Receivables and preferred stock from sale of divisions	(20,948)	(10,948)
Carrying value of net assets of a segment sold	42,718	42,718
(Increase) in carrying value prior to sale	(7,978)	(7,978)
Carrying value of divisions and joint ventures sold	76,329	21,055
Net Cash Generated by Investing Transactions	81,178	35,904
Financing Transactions:		
Net increase (decrease) in short-term debt	1,024	1,024
Increase in long-term debt	10,793	10,793
Decrease in long-term debt	(116,201)	(27,323)
Issuance of stock	20	20
Cash Generated by (Used for) Financing Transactions	(104,364)	(15,486)
Decrease in Cash and Cash Equivalents	$ (830)	$ (830)

**Net Cash Generated By (Used For) Operating Transactions above includes gains (losses) of $65,522,000, $21,918,000, $11,012,000, and ($7,439,000) from sale of net assets of divisions or joint ventures of the Company during the years ended June 30, 1988 Pro Forma, 1988 Historical, 1987, and 1986, respectively.

Notes to Consolidated Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Basis of Presentation. On June 30, 1988, the Company entered into contracts, subject to certain representations, warranties, and covenants, for the sale of its Etienne Aigner and Valchem Divisions. These transactions were consummated subsequent to June 30, 1988. The 1988 pro forma financial statements adjust the 1988 historical financial statements to reflect these sales as if they have been completed on June 30, 1988. The pro forma adjustments to the historical financial statements (1) eliminate the carrying value of these assets held for sale ($55,274,000), (2) apply the discounted cash proceeds received ($88,878,000) as a reduction of long-term debt, (3) record the receipt of 7% cumulative preferred stock of one of the buyers (carried at $10,000,000 in Other Assets and Deferred Charges) as a part of the proceeds, and (4) reflect the resulting gains on the sales. See Note 3 of Notes to Consolidated Financial Statements.

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NOTE 3—DISPOSITIONS

As mentioned in Note 1 above, on June 30, 1988, the Company entered into contracts, which were consummated subsequent to June 30, 1988, to sell its Etienne Aigner ("Aigner") and Valchem Divisions. Aigner was sold to a group that included members of key management of Aigner. The purchase price was $83,650,000 (subject to final adjustment) consisting of $70,000,000 cash and $10,000,000 preferred stock, with the balance to be paid in cash after delivery of the closing financial statements. Net sales of the Aigner Division for the years ended June 30, 1988, 1987, and 1986 amounted to $86,888,000, $76,348,000, and $83,778,000, respectively. Operating income for the same periods was $8,688,000, $8,104,000, and $10,889,000, respectively. The Company's carrying value of Aigner, including goodwill of $27,000,000 amounted to $51,600,000; the sale of which resulted in a gain of approximately $32,050,000.

The Valchem Division was sold for $15,223,000 in cash. The sale resulted in a gain of approximately $11,560,000. Net sales of the Valchem Division for the years ended June 30, 1988, 1987, and 1986 amounted to $11,319,000, $8,057,000, and $4,635,000, respectively. Operating income for the same periods was $970,000, $1,089,000, and $163,000, respectively.

The gains on the sales of the Aigner and Valchem Divisions will be included in the Company's results of operations for the quarter ended September 30, 1988.

Report of Independent Certified Public Accountants

The Board of Directors and Stockholders
United Merchants and Manufacturers, Inc.:

We have audited the accompanying consolidated financial statements of United Merchants and Manufacturers, Inc. and subsidiaries as listed in the accompanying index. The 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. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Merchants and Manufacturers, Inc. and subsidiaries at June 30, 1988 and 1987, and the results of their operations and their changes in cash for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles. Also in our opinion, the related 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 the pro forma adjustments reflecting the transactions described in Note 1, and the application of those adjustments to the historical amounts in the accompanying June 30, 1988 consolidated pro forma balance sheet and the consolidated pro forma statements of operations and changes in cash for the year then ended. Our audit was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the transactions described in Note 1 been consummated at June 30, 1988.

In our opinion, the June 30, 1988 pro forma amounts reflect the proper application of the pro forma adjustments to the historical financial statement amounts in the aforementioned pro forma financial statements.

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for pension costs and income taxes.

PEAT MARWICK MAIN & CO.
New York, New York
September 21, 1988

VISHAY INTERTECHNOLOGY, INC., JUNE 30, 1988

Vishay Intertechnology, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 1988	
	Pro Forma (Note B)	
ASSETS		
Current assets		
Cash	$ 21,424	$ 19,192
Short-term investments—at cost, which approximates market	7,784	4,283
Accounts receivable—less allowance (1988—$1,059,000; 1987—$375,000)	46,771	24,759
Receivables from unconsolidated affiliate		10,762
Other receivables	6,516	4,000
Inventories:		
Finished goods	24,103	10,367
Raw materials and work in process	34,270	16,831
Prepaid expenses and other assets	7,258	5,790
Total current assets	148,127	95,987
PROPERTY AND EQUIPMENT—at cost		
Land	5,452	2,325
Buildings and improvements	36,651	17,312
Machinery and equipment	86,889	33,561
	128,993	53,200
Less allowances for depreciation	(27,566)	(18,065)
	101,426	35,134
EQUITY IN AND ADVANCES TO UNCONSOLIDATED AFFILIATE		45,025
OTHER ASSETS	4,746	1,916
GOODWILL	30,124	1,289
	$284,425	$179,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable to banks	$ 8,469	$ 8,401
Trade accounts payable	15,862	9,113
Payroll and related expenses	10,668	6,232
Other accrued expenses	12,382	8,208
Income taxes	2,494	1,041
Current portion of long-term debt	10,489	10,489
Total current liabilities	60,368	43,486
Long-term debt—less current portion	110,952	26,974
Deferred taxes and other liabilities	5,924	3,521
Accrued pension costs	12,652	10,841

Consolidated Balance Sheets (continued)

	June 30, 1988	
	Pro Forma (Note B)	
STOCKHOLDERS' EQUITY		
Preferred Stock, par value $1.00 a share: Authorized—1,000,000 shares; none issued		
Common Stock, par value $0.10 a share: Authorized—15,000,000 shares; issued and outstanding: 1988—5,666,880 shares; 1987—5,168,972 shares	$ 566	$ 566
Class B convertible Common Stock, par value $0.10 a share: Authorized—15,000,000 shares; issued and outstanding: 1988—2,251,221 shares; 1987—2,362,587 shares	225	225
Capital in excess of par value	54,252	54,252
Retained earnings	42,401	42,401
Note receivable—Dale Electronics, Inc.		(3,010)
Equity adjustment from foreign currency translation	357	357
Unearned compensation	(3,274)	(264)
	94,528	94,528
	$284,425	$179,352

Vishay Intertechnology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note B—Acquisitions

On October 31, 1985, the Company and Mezzanine Holdings N.V. ("Mezzanine") each invested $3,006,000 as equity contributions in a newly formed company, Dale. Dale then acquired all the outstanding common stock of Dale Electronics, Inc. for $93,804,000. The Company and Mezzanine each advanced Dale $10,000,000. The balance of the purchase price was financed by Dale on a long-term basis, of which the Company guaranteed $35,000,000. In addition, the Company guaranteed the repayment of the $10,000,000 Mezzanine advanced to Dale. Mezzanine's option to cause the Company to purchase its share of Dale was exercised on July 1, 1988.

The Company purchased for cash the remaining 50% interest in Dale from Mezzanine for $10.8 million on July 1, 1988 and will begin consolidating Dale as of that date. The acquisition was financed with additional bank borrowings. A pro forma consolidated balance sheet, which appears on pages 18 and 19, has been prepared by Vishay's management based on the historical financial statements of Vishay and Dale. The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been assuming the transaction occurred at June 30, 1988. Pro forma adjustments include the (a) elimination of the Company's equity in and advances to Dale, (b) elimination of all intercompany amounts, (c) additional goodwill ($6.5 million), (d) additional debt ($10.8 million), and (e) unfunded pension liability ($1.8 million) arising from the acquisition.

Report of Independent Auditors
Board of Directors and Stockholders
Vishay Intertechnology, Inc.
Malvern, Pennsylvania

We have audited the accompanying consolidated balance sheets of Vishay Intertechnology, Inc. and subsidiaries as of June 30, 1988 and 1987, and the related consolidated statements of operations and retained earnings and of changes in financial position for each of the three years in the period ended June 30, 1988. These financial statements are the responsibility of the Company's manage-

ment. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of $65,231,534 in 1988 and $52,496,576 in 1987 and net sales of $10,092,396 in 1988, $9,669,807 in 1987, and $8,549,949 in 1986. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vishay Intertechnology, Inc. and subsidiaries at June 30, 1988 and 1987, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles.

We have examined the pro forma adjustments reflecting the acquisition on July 1, 1988 of the remaining 50% interest in Dale Holdings, Inc. and the application of those adjustments to the historical amounts in the assembly of the accompanying pro forma consolidated balance sheet as of June 30, 1988. Such pro forma adjustments are based upon management's assumptions described in Note B. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and, accordingly, included such procedures as we considered necessary in the circumstances. In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects of the above-mentioned transaction, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma consolidated balance sheet reflects the proper application of those adjustments to the historical financial statements.

ERNST & WHINNEY
Philadelphia, Pennsylvania
August 15, 1988

III

PRO FORMA STATEMENTS PRESENTED OUTSIDE HISTORICAL STATEMENTS IN THE ANNUAL REPORT—SUBSEQUENT EVENTS OTHER THAN ACQUISITION OR DISPOSITION BY THE REPORTING ENTERPRISE OF AN INVESTMENT IN AN ENTERPRISE

Chapter 2 presents examples of pro forma financial statements in annual reports outside historical financial statements in which the subsequent event is the acquisition or disposition by the reporting enterprise of an investment in an enterprise. Pro forma statements outside historical financial statements in annual reports also reflect as subsequent events events other than the acquisition or disposition by the reporting enterprise of an investment in an enterprise. The pro forma statements are with few exceptions presented as additional columns in the historical statements. A pro forma balance sheet is invariably presented, and some companies additionally present a pro forma income statement. A report by an independent auditor on the pro forma statements may also be presented.

Below are eight examples of pro forma statements reflecting as subsequent events, events other than the acquisition or disposition by the reporting enterprise of an investment in an enterprise. These kinds of subsequent events were reflected:

- Sale of common or preferred stock in the reporting enterprise
- Issuance of common stock in the reporting enterprise in exchange for services
- Redemption of common stock in the reporting enterprise
- Repayment of debt
- Sale of property
- Collection of a receivable
- Loan of money to the reporting enterprise
- Issuance of common stock in the reporting enterprise to extinguish debt

In all the examples, the pro forma statements were presented as additional columns in the historical statements. All eight companies presented a pro forma balance sheet, but no company presented a pro forma income statement. Three examples—Galveston-Houston Company, Mischer Corporation, and Public Service Company of New Hampshire—include a report by an independent auditor on the pro forma statements.

AMERICAN HEALTH SERVICES CORP., DECEMBER 31, 1989

American Health Services Corp. and Subsidiaries
Consolidated Balance Sheets

	1989	
	Historical	Pro Forma (Note 12) (Unaudited)
ASSETS:		
Current assets:		
Cash and cash equivalents, including restricted cash (Note 7)	$ 1,539	$ 7,888
Accounts receivable, net of an allowance for doubtful accounts of $402,766 and $542,094 at December 31, 1988 and 1989, respectively, and an allowance for professional fees of $859,530 and $1,140,426 at December 31, 1988 and 1989, respectively (Note 1)	6,022	6,022
Prepaid expenses	722	722
Equipment deposits (Note 6)	1,921	1,921
Notes receivable	300	300
Total current assets	10,506	16,855
Property and equipment, at cost, net of accumulated depreciation of $695,100 and $2,428,522 at December 31, 1988 and 1989, respectively (Notes 1 and 3)	19,974	19,974
Other assets (Note 1)	2,059	1,903
	$32,540	$38,734
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,702	$ 2,702
Accrued payroll and related costs	299	299
Professional fees payable (Note 1)	285	285
Center profit distributions payable (Note 4)	336	336
Current portion of capital lease obligations (Note 4)	321	321
Current portion of long-term debt (Note 3)	2,412	2,412
Current portion of deferred rent expense (Note 4)	204	204
Total current liabilities	6,562	6,562
Capital lease obligations (Note 4)	603	603
Deferred rent expense (Note 4)	778	778
Long-term debt (Note 3)	21,053	21,053
Contingencies and commitments (Notes 4, 6, and 9)		
Minority interest (Note 1)	1,054	1,054
STOCKHOLDERS' EQUITY (Notes 1-5, 8-10, and 12):		
10 percent cumulative convertible preferred stock with a liquidation preference of $1.85 per share plus unpaid dividends		
Authorized—5,000,000 shares		
Outstanding—3,783,783 at February 15, 1990 stated at	—	6,178
Common stock, $0.03 par value—		
Authorized—25,000,000 shares		
Outstanding—8,990,960 and 9,150,960 at December 31, 1988 and 1989, respectively	274	274
Common stock warrants	64	79
Additional paid-in capital	8,880	8,880
Accumulated deficit	(6,484)	(6,484)
Less—Amounts due from stockholders	(246)	(246)
	2,488	8,682
	$32,540	$38,734

12. Subsequent Events

a. Sale of Preferred Stock. On February 15, 1990, the Company completed a sale of 3,783,783 shares of its 10 percent cumulative convertible preferred stock to designees of OmniCorp Holdings, Inc. (OmniCorp) for $1.85 per share or $7,000,000. Each share of preferred stock is convertible into one share of common stock. In addition, the Company sold OmniCorp warrants to purchase 500,000 shares of its common stock at $3.85 per share. These warrants were sold for consideration of $15,000.

The accompanying consolidated balance sheets include a pro forma balance sheet as though the transaction had occurred on December 31, 1989. Total consideration received for the transaction was $7,015,000 and the Company incurred $821,669 in offering and transaction costs for net proceeds of $6,193,331. All related balance sheet accounts have been adjusted to reflect receipt of the proceeds and payment of the costs in connection with the transaction.

EXOVIR, INC., DECEMBER 31, 1989

Exovir, Inc. (A Development Stage Company)
Balance Sheets

	December 31, 1989	Pro Forma (Unaudited) December 31, 1989 (See Note I)
CURRENT ASSETS		
Cash and cash equivalents	$ 122	$ 420
Inventory	177	177
Prepaid expenses and other current assets	27	27
Total current assets	326	625
FURNITURE AND EQUIPMENT—net of accumulated depreciation of $36,247 in 1989 and $28,952 in 1988	20	20
OTHER ASSETS		
Rent security deposit	10	10
Deferred patent application costs—Note B	498	498
	$ 856	$ 1,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses—Note F	$ 744	$ 652
Stockholders' equity—Notes C and E		
Preferred Stock, par value $0.01 per share—authorized 1,000,000 shares		
Common Stock, par value $0.01 per share—authorized 10,000,000 shares, issued 3,563,583 shares (3,922,083 shares pro forma) in 1989 and 3,335,833 shares in 1988	35	39
Additional paid-in capital	10,180	10,567
Deficit accumulated during the development stage	(10,013)	(10,013)
	202	592
Less:		
Treasury stock—at cost, 17,500 shares in 1989 and 1988	(73)	(73)

Balance Sheets (continued)

	December 31, 1989	Pro Forma (Unaudited) December 31, 1989 (See Note I)
Unamortized deferred compensation	(17)	(17)
	111	502
Commitments and contingencies—Notes A, C, and E	$ 856	$ 1,154

Exovir, Inc. (A Development Stage Company)
December 31, 1989
Notes to Financial Statements

NOTE I—Subsequent Events

On March 21, 1990, the Company, through a private placement of common stock units, sold 298,500 units at $1.00 per unit, aggregating $298,500 to eighteen investors, including certain officers and directors of the Company. Each unit consists of one share of the Company's common stock and a warrant to purchase one share of common stock. The warrants are exercisable at a price of $2.00 per share for a period of three years. In connection with the private placement, the Company's vice president agreed to release the Company from its obligation in respect to $10,625 of salary earned in 1989 and not paid in return for 10,000 units.

In March 1990, the Company's chairman and acting president agreed to release the Company from its obligation in respect to $81,250 of salary earned in 1989 and not paid in return for 50,000 shares of the Company's common stock.

The unaudited pro forma balance sheet information has been presented as if the sale of 298,500 units and issuance of 50,000 shares and 10,000 units had occurred on December 31, 1989.

GALVESTON-HOUSTON COMPANY, DECEMBER 31, 1989

Galveston-Houston Company
December 31, 1989, and 1988
Consolidated Balance Sheets

	1989	Pro Forma 1989 (Note 1)
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,256	$ 4,157
Accounts receivable, net	8,213	8,213
Inventories	10,591	10,591
Prepaid expenses	949	949
Total current assets	21,009	23,910
Property, plant and equipment, at cost, less accumulated depreciation	23,926	23,926
Excess cost over net assets acquired, less accumulated amortization of $2,169 and $1,928	7,545	7,545
Assets held for sale	4,345	4,345
Other assets	585	585
	$57,410	$60,311
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term bank debt	$ 2,191	$ 2,191
Accounts payable, trade	4,970	4,970
Accrued liabilities	3,519	3,519

	1989	Pro Forma 1989 (Note 1)
	(in thousands)	
Current maturities of long-term debt	$ 3,439	$ 2,104
Total current liabilities	14,119	12,784
Long-term debt	22,176	5,356
Other non-current liabilities	1,968	1,968
Stockholders' equity:		
Common stock, par value $0.25 per share, authorized 30,000,000 shares; issued shares of 18,481,145, 13,881,145, and 11,607,464, respectively	3,471	4,621
Paid-in capital	63,736	83,642
Accumulated deficit	(41,718)	(41,718)
	25,489	46,545
Less: Cost of 212,112 common shares, in treasury	(6,342)	(6,342)
Total stockholders' equity	19,147	40,203
	$57,410	$60,311

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Pro Forma Presentation

Pro Forma Balance Sheet. In early February 1990, the Company completed the sale of 4,600,000 shares of its common stock in a public offering and applied $18,155,000 of the net proceeds to repay long-term bank debt and added $2,901,000 to working capital. The pro forma financial information is presented to show what the significant effects on the historical balance sheet might have been had the sale of common stock been completed prior to December 31, 1989.

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of Galveston-Houston Company:

We have audited the accompanying historical consolidated balance sheets of Galveston-Houston Company and Subsidiaries as of December 31, 1989 and 1988, and the related consolidated statements of operations, stockholders' equity and cash flows, and the financial statement schedules for each of the three years in the period ended December 31, 1989. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We have also audited the pro forma adjustments reflecting the transactions described in Note 1, and the application of those adjustments to the historical amounts in the accompanying pro forma consolidated balance sheet as of December 31, 1989.

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

In our opinion, the historical financial statements referred to above present fairly, in all material respects, the consolidated financial position of Galveston-Houston Company and Subsidiaries as of December 31, 1989 and 1988, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules

referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

Also in our opinion, the accompanying pro forma balance sheet presents fairly the financial position of Galveston-Houston Company as it would have appeared on December 31, 1989, had the transactions as described in Note 1 been consummated at that date.

As discussed in Note 6, the Company changed its method of accounting for income taxes in 1989.

COOPERS & LYBRAND
Houston, Texas
March 16, 1990

GENISCO TECHNOLOGY CORPORATION, SEPTEMBER 30, 1987

Genisco Technology Corporation
Consolidated Balance Sheets
At September 30, 1987

	1987	1987 Pro Forma (Note 11)
ASSETS (Note 3)		
Current assets:		
Cash	$ 45	$ 1,077
Accounts receivable (Note 2)	11,093	11,093
Income tax refund receivable	32	221
Inventories (Notes 1 and 2)	9,927	9,927
Deferred tax benefits (Note 4)	550	550
Other current assets	263	285
Property and plant held for sale, net of accumulated depreciation of $1,022,596 (Note 11)	1,180	
Total current assets	23,283	22,934
Property, plant and equipment, net (Notes 1, 2, and 11)	3,368	3,368
Other assets (Notes 1 and 2)	2,562	2,562
	$29,214	$28,865
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,292	$ 4,292
Accrued salaries, wages and related costs	1,906	1,906
Other accrued liabilities	712	1,395
Accrued contract termination costs (Note 10)	1,700	1,700
Income taxes payable		617
Long-term debt due within one year (Note 3)	5,905	3,004
Total current liabilities	14,515	12,915
Long-term debt due after one year (Note 3)	309	309
Deferred tax credits (Note 4)	589	589
Commitments and contingencies (Notes 5 and 10)		
Stockholders' equity (Notes 1, 3 and 6):		
Common stock, par value $0.50 per share; authorized—10,000,000 shares; outstanding—2,671,766 in 1987 and 2,669,406 in 1986	1,506	1,506
Additional paid-in capital	9,697	9,697
Retained earnings	2,442	3,694
Foreign currency translation adjustments	152	152
Total stockholders' equity	13,798	15,050
	$29,214	$28,865

Genisco Technology Corporation
Notes to Consolidated Financial Statements
September 30, 1987

11. Subsequent Event—Pro Forma Real Estate Transaction

During November 1987, the Company entered into a transaction which provides for: 1) sale of its 106,000 square-foot plant located on 6.06 acres of land in Rancho Dominguez, California for $3,900,000, paid in cash at the closing. This facility is currently occupied by the Electronics Division, excluding its transducer operation, and the corporate office. The Company has leased back the property from the buyer on a month-to-month basis at a monthly rate of $40,000. The Company has an option to reacquire this property for the same $3,900,000 if certain conditions are not met, the most significant being that the new La Mirada facility, described below, must be completed twelve months after the building plans have been approved by both parties. This approval is presently expected to occur in December of 1987; 2) entering a ten-year lease for a new 135,000 square-foot facility located on 7.02 acres of land in La Mirada, California. The lease, which requires the lessor to construct certain building improvements totaling $2,200,000, is a "triple net" lease having a basic, initial monthly rent of $93,000; and 3) transfer and relinquishment of its obligations under the lease of the 53,000 square-foot facility in Cypress currently occupied by the Peripheral Systems Division.

The Peripheral Systems Division and Electronics Division will operationally merge into the La Mirada facility and will continue to market their products. The Company's transducer operation will remain in Simi Valley. When the La Mirada facility is completed, the Company's repurchase option referred to above will expire, and the lessor will be obligated under the lease of the Company's Cypress facility. The Company expects to occupy the La Mirada facility during the third quarter of 1988.

The Company's 1987 pro forma Consolidated Balance Sheet at September 30, 1987 includes the effects of pro forma adjustments to reflect what the significant effects on the historical information might have been had the transactions described above occurred on or before September 30, 1987. However, the 1987 pro forma Consolidated Balance Sheet is not necessarily indicative of the financial position that would have been attained had the transactions described above actually occurred on or before September 30, 1987. The pro forma adjustments and related assumptions include a pretax gain of approximately $2,091,000 and a related tax provision computed at the statutory tax rates. The amount of tax which the Company will ultimately pay related to these transactions could be less depending on, among other things, the Company's ability to generate future taxable income. The Company will record the actual effects of these transactions in its Consolidated Statements of Operations during the period in which it occupies the La Mirada facility.

The fixed assets to be sold, transferred or relinquished by the Company, as described in the above transaction, have been classified as current assets under the caption "property and plant held for sale" in the Company's Consolidated Balance Sheet at September 30, 1987. The related cost amounts are $356,000 for land, $1,440,538 for building and improvements, and $406,636 for leasehold improvements. The related accumulated depreciation and amortization amounts are $883,350 for building and improvements and $139,246 for leasehold improvements.

MEDICAL STERILIZATION, INC., DECEMBER 31, 1989

Medical Sterilization, Inc.
Balance Sheets

	Pro Forma (Note 8) (Unaudited)	1989
ASSETS:		
Current assets:		
Cash (Note 12)	$ 202	$ 202
Receivables (Notes 4 and 7):		
Trade	1,053	1,053
Related party (Note 11)	446	446
	1,499	1,499
Less, allowance for doubtful accounts	22	22
	1,477	1,477

Balance Sheets (continued)

	Pro Forma (Note 8) (Unaudited)	1989
Inventory	$ 20	$ 20
Prepaid expenses	152	152
Other current assets (Note 8)	33	1,033
Total current assets	1,886	2,886
Fixed assets, at cost less accumulated depreciation and amortization (Notes 3, 4, and 7)	5,509	5,509
Other assets	75	75
Total assets	$7,471	$8,471
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Notes payable (Notes 4 and 8)	$ 750	$1,400
Accounts payable and accrued expenses (Note 5)	833	983
Current maturities of long-term debt (Note 7)	572	772
Total current liabilities	2,156	3,156
Long-term debt, less current maturities (Note 7)	1,170	1,170
Commitments and contingencies (Notes 7, 9, 12, and 13)		
Preferred stock (Note 8)		
Convertible redeemable cumulative preferred stock, par value $0.01 per share: Series A—Authorized 1,000,000 shares, issued and outstanding 833,334 shares	2,562	2,562
Shareholders' equity (Notes 4, 7–11, and 14)		
Common stock, par value $0.01 per share, Authorized 10,000,000 shares, issued and outstanding 2,788,829 shares in 1989 and 1988	27	27
Additional paid-in capital	8,696	8,696
Accumulated deficit	(7,142)	(7,142)
Total shareholders' equity	1,581	1,581
Total liabilities and shareholders' equity	$7,471	$8,471

Medical Sterilization, Inc.
Notes to Financial Statements

8. Preferred Stock:

In December 1989, the Company issued 333,333 shares of Preferred Stock and warrants, to purchase 333,333 shares of common stock at a price of $ 3.00 a share exercisable through December 1994, in exchange for a $ 1,000,000 receivable which is classified in Other Current Assets at December 31, 1989. In January 1990, the proceeds were received and used to repay outstanding debt and to satisfy working capital requirements. The unaudited pro forma information shown on the balance sheet reflects the collection and disposition of these proceeds.

THE MISCHER CORPORATION, DECEMBER 31, 1989

The Mischer Corporation and Subsidiaries
Consolidated Balance Sheets
(Thousands of dollars)

	Dec. 31, 1989	Pro Forma Dec. 31, 1989
ASSETS		
Real estate assets:		
Developed residential lots	$ 4,766	$ 259

	Dec. 31, 1989	Pro Forma Dec. 31, 1989
Real estate held for resale or development	$ 72,107	$ 678
Income producing properties, net	18,561	18,561
Equity in real estate joint ventures	41	1,521
Notes receivable	1,681	565
Other	7,839	3,116
Total real estate assets	104,995	24,700
Equipment, net	166	166
Cash and short-term cash investments	1,637	2,204
Accounts receivable	352	539
Other assets	316	209
Assets of discontinued operations, net of allowances of $1,265, $1,265, and $1,353	7,237	7,237
	$114,703	$35,055
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Notes payable	$ 93,801	$19,750
Mortgage notes payable	3,131	38
Subordinated convertible debentures, due December 1, 1992	2,833	2,833
Other long-term debt	2,553	2,553
Accounts payable and accrued expenses	7,671	1,875
Other liabilities	3,009	1,788
Liabilities of discontinued operations	7,492	7,492
Total liabilities	120,490	36,329
Stockholders' equity (deficit):		
Common stock, $1 par, 10,000,000 shares authorized; 3,281,331, 3,281,331, and 2,130,523 shares issued	3,281	3,281
Additional paid-in capital	3,031	3,031
Retained earnings (deficit)	(11,986)	(7,473)
Less treasury stock, 80,000, 80,000, and 46,000 shares at cost	(113)	(113)
Total stockholders' equity (deficit)	(5,787)	(1,274)
	$114,703	$35,055

Notes to Consolidated Financial Statements

(1) Current Business Conditions

Background. The Mischer Corporation and its majority-owned subsidiaries' (the Company) operations are concentrated in Houston, Texas, which has been adversely affected by the downturn in the energy and real estate markets as well as in other business areas. The impact of the economic conditions has resulted in reduced sales of residential lots and commercial tracts. As a result, the Company's cash flow from operations has not been sufficient to meet the Company's obligations.

1989 Debt Restructure. On February 16, 1989, the Company reached an agreement with two of its principal lenders and Walter M. Mischer (Creditors) to restructure existing debt (restructured debt), which had outstanding balances of $74,758,000 and $76,796,000 as of December 31, 1989 and 1988, respectively. In addition the two principal bank lenders (Lenders) agreed to loan the Company up to $10,000,000 pursuant to a revolving loan commitment and an additional $3,000,000 to pay interest on the revolving loan (Loans), both bearing interest at the prime rate plus 2%. These loans were to mature on September 30, 1993 and were secured by certain assets of the Company. The outstanding balances under the loans were $10,251,000 as of December 31, 1989. The Creditors received 1,150,808 shares of common stock on April 20, 1989, representing 36% of the outstanding shares of common stock as payment for $6,157,000 of past due interest on the restructured debt.

The Company has also issued warrants for 140,960 shares of common stock expiring on December 31, 1992 to protect the Creditors against potential dilution of their equity interest.

The restructured debt was to mature on September 30, 1993 and bear interest at 6% per annum from January 1, 1988 through July 31, 1990, and 7% per annum from August 1, 1990 through September 30, 1993. During 1989 the Company accrued interest on the restructured debt at the 6% rate compared with stated contract rates, which averaged 9.9% during 1988. Interest accrued during 1988 in excess of 6% in the amount of $3,128,000 and past due interest paid by issuance of stock in the amount of $6,157,000 was amortized to reduce the effective interest rate on the restructured debt prospectively from the date of the restructuring, February 16, 1989, through September 30, 1993. During 1989 the Company amortized $1,856,000 of the interest accrued during 1988 in excess of 6% and the past due interest paid by the issuance of stock to yield an effective interest rate of 3.5% on the restructured debt.

Advances under the loans were governed by a borrowing base computation applied to values assigned to the collateral securing the loans and were subject to budget limitations agreed upon by the Company and Lenders. The Lenders could terminate their commitments to fund advances under the loans for cause, including but not limited to failure to pay any installment on any debt when due, failure to pay ad valorem taxes on properties securing the loans and the restructured debt, and failure to achieve projected consolidated net cash flow. The Company's consolidated net cash flow was to be paid to the Lenders to retire principal and interest on the loans. Thereafter, 80% of the Company's net cash flow was to be paid to retire the principal and interest on the restructured debt. The provisions of the loans and restructured debt covenants placed certain restrictions and limitations upon the Company. The Lenders were to approve sales and dispositions of assets, investments, new indebtedness, new liens on property, capital expenditures, dividends, and other material transactions. The Company was required to submit annual projections of consolidated net cash flow for Lenders' approval. The Company's capital and operating expenditures were to remain within budgetary limitations.

In addition, the Creditors agreed to forbear from taking any action to exercise any rights or remedies to collect the restructured debt. The forbearance could be terminated upon certain events of default by the Creditors who held 51% of the outstanding balances of the restructured debt. Prior and subsequent to the closing on February 16, 1989, management disclosed to the Creditors that the Company was not in compliance with certain covenants of the loans and restructured debt. A significant scheduled note receivable payment due September 10, 1989 was not received by the Company, which constituted an event of default under the loans and forbearance agreements. The note receivable was secured solely by real estate and the makers of the note informed the Company that they would deed back the property securing the note receivable in lieu of foreclosure. During September 1989,the Company notified the Creditors of its desire to settle its defaults and obligations under the loans and restructured debt. On December 12, 1989, the Lenders notified the Company that it had defaulted under the terms and conditions of the loans and the restructured debt. The Lenders also accelerated the loans and restructured debt and revoked the forbearance.

1990 Loans and Restructured Debt Settlement. On March 27, 1990 the Company reached an agreement with the Creditors to resolve its defaults under the loans and forbearance agreement and to settle the outstanding debt and the remaining deficiencies under the loans and restructured debt. The settlement provides for the conveyance to the Creditors of title to certain collateral securing the loans and restructured debt and the assignment of distribution rights of certain real estate projects. Total debt satisfied was $85,400,000 from the conveyance of collateral and assignment of distribution rights and the issuance of two deficiency notes in the total amount of $4,105,000. One deficiency note in the amount of $2,638,000 bears interest at 6% per annum from February 20, 1990 through July 31, 1990 and 7% per annum from August 1, 1990 through September 30, 1993, is due on September 30, 1993 and is secured by land and the Company's interest in certain joint ventures. The other deficiency note in the amount of $1,467,000 bears interest at the prime rate plus 1%, is due on April 30, 1991 and is secured by real estate and notes receivable. If the Company meets certain conditions by April 30, 1991 the $1,467,000 deficiency note and accrued interest will be forgiven. There can be no assurances that the Company will be able to meet these conditions. In addition to these provisions, the Lenders agreed to advance an additional $750,000 under the Loans, which was satisfied by the conveyance of collateral discussed above. This $750,000 advance was received by the Company on March 27, 1990. Further, the Lenders have agreed to loan $165,000 to the Company to pay closing expenses, which loan will be due on March 1, 1992 with interest at the prime rate plus 1% due quarterly. One of the Lenders has entered into agreements with the Company for the Company to perform certain standard managerial and consulting duties for certain

real estate properties for an aggregate monthly fee of $33,000. The management agreements are cancelable upon thirty days' notice. The Company also assigned its interest in certain property securing a loan in the amount of $3,400,000 to Mr. Mischer in settlement of the debt.

Pro Forma Consolidated Balance Sheet. The Company has presented a pro forma consolidated balance sheet reflecting the significant effects on the Company's financial position as if the settlement with the Creditors had occurred on December 31, 1989. In addition to the settlement reached on March 27, 1990, the Company anticipates settlements of debt totaling $1,997,000 payable to other lenders subsequent to April 12, 1990, which have been reflected in the pro forma consolidated balance sheet. The pro forma consolidated balance sheet is based upon the historical consolidated balance sheet as of December 31, 1989 as adjusted to reflect the terms of the settlement with the Creditors and the anticipated debt settlements with other lenders, as discussed above, but does not include any effects on the Company's financial position that would have been attained had the agreements actually occurred earlier.

The pro forma adjustments include the following significant items:

i) Conveyance of certain real estate assets, cash, and accounts receivable relating to these real estate projects, and other assets with a total book value of $78,594,000 in settlement and payment of consolidated debt totaling $71,862,000 and accrued interest of $4,477,000.

ii) Receipt of the $750,000 advance, which was satisfied by conveyance of collateral.

iii) Establishment of two deficiency notes and a note to pay closing costs in the total amount of $4,270,000 and accrued interest thereon of $880,000.

iv) Recognition of the unamortized interest accrued during 1988 in excess of 6% and the past due interest paid by the issuance of stock, and the write-off of certain accounts payable, accrued expenses, and other liabilities relating to the conveyed real estate projects and the settled debt in the aggregate amount of $10,265,000.

v) Conveyance of certain real estate assets with a total book value of $1,094,000 in anticipated settlements to pay consolidated debt totaling $1,997,000.

Report of Independent Public Accountants

To the Stockholders and Board of Directors of The Mischer Corporation:

We have audited the accompanying consolidated balance sheets of The Mischer Corporation (a Delaware corporation) and subsidiaries (the Company) as of December 31, 1989 and 1988, and the related consolidated statements of income (loss), changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of The Design Center Venture, d/b/a Innova (a joint venture), for the two years in the period ended December 31, 1988 or Cinco Ranch Joint Venture for the year ended December 31, 1987, the Company's investments in which are reflected in the accompanying financial statements using the equity method of accounting. The Company's investment in Innova was negative $12,500,000 as of December 31, 1988. The Company's equity in its losses was $4,405,000 and $4,284,000 for the two years in the period ended December 31, 1988. The Company's investment in Cinco Ranch Joint Venture was $3,210,000 as of December 31, 1987, and the Company's equity in its net income was $1,806,000 for the year ended December 31, 1987. The statements of these joint ventures were audited by other auditors whose reports have been furnished to us. The report of the other auditors on the statements of Innova included an explanatory paragraph with respect to the substantial doubt about the ability of Innova to continue as a going concern. Our opinion, insofar as it relates to the amounts included for Innova and Cinco Ranch Joint Venture for the years described above, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Mischer Corporation and subsidiaries as of December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has sustained significant losses in the last three fiscal years, has continued to sustain operating losses since the end of its latest fiscal year, and has a deficit in stockholders' equity. In addition, the Company's cash flow from operations has not been sufficient to meet the Company's obligations and may not be sufficient to meet future obligations. The Company restructured certain indebtedness in February 1989 and again in March 1990. These factors raise substantial doubt about the Company's ability to continue as a going concern and to realize the carrying amount of its assets. Management's plans in regard to these matters are described in Note 1 to the consolidated financial statements. As discussed in Note 7 to the consolidated financial statements, the Company is involved in litigation and other contingencies, the outcomes of which are uncertain at this time. Management believes that such litigation and other contingencies will not materially adversely affect the consolidated financial position of the Company. However, if the Company, in light of its present circumstances, were required to make substantial cash expenditures in connection with such litigation and contingencies, such expenditures may have a material adverse effect on the Company's consolidated financial position and ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties described above.

We have also audited the pro forma adjustments reflecting the debt settlements described in Note 1 to the consolidated financial statements and the application of those adjustments to the historical amounts in the assembly of the accompanying pro forma consolidated balance sheet of the Company as of December 31, 1989. Such pro forma adjustments are based upon management's assumptions regarding the debt settlements described in Note 1. Our audit was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The objective of the pro forma consolidated balance sheet is to show what the significant effects on the historical consolidated balance sheet might have been had the debt settlements occurred as of December 31, 1989. However, the pro forma consolidated balance sheet is not necessarily indicative of the effects on the Company's financial position that would have been attained had the debt settlements actually occurred earlier.

In our opinion, management's assumptions regarding the debt settlements provide a reasonable basis for presenting the significant effects on the Company's financial position directly attributable to the debt settlements, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma consolidated balance sheet reflects the proper application of those adjustments to the historical consolidated balance sheet as of December 31, 1989.

Arthur Andersen & Co.
Houston, Texas,
April 11, 1990

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE, DECEMBER 31, 1989

Public Service Company of New Hampshire
Balance Sheets

	Dec. 31, 1989 Actual	Dec. 31, 1989 Pro Forma (Note 1)
	(Thousands of dollars)	
ASSETS		
Utility Plant at Cost		
Electric Plant	$1,024,904	$1,024,904
Less: Accumulated Provision for Depreciation	343,810	343,810

	Dec. 31, 1989 Actual	Dec. 31, 1989 Pro Forma (Note 1)
	(Thousands of dollars)	
Regulatory Asset	$ —	$ 836,540
	681,094	1,517,634
Unfinished Construction:		
Seabrook (Notes 2 and 3)	1,529,210	700,000
Other	1,290	1,290
Total Unfinished Construction	1,530,500	701,290
Net Utility Plant	2,211,594	2,218,924
Investments		
Nuclear Generating Companies	12,102	12,102
Real Estate Subsidiary	9,172	9,172
Other, at Cost	155	155
Total Investments	21,429	21,429
Current Assets		
Cash and Temporary Investments	44,138	—
Accounts Receivable (Net of Allowance of $1,581 in 1989 and $1,536 in 1988)	63,159	63,159
Unbilled Revenue	17,670	17,670
Fuel, Materials, and Supplies, at Cost	37,922	37,922
Deferred Fuel Costs	13,738	13,738
Other	17,991	17,991
Total Current Assets	194,618	150,480
Other Assets		
Deferred Charges	14,911	7,700
Other	4,969	38,344
Total Other Assets	19,880	46,044
	$2,447,521	$2,436,877
CAPITALIZATION AND LIABILITIES		
Capitalization (See separate statements)		
Common Stock Equity	$113,998	$644,000
Preferred Stock		
With Mandatory Redemption Requirements	420,613	125,000
Without Mandatory Redemption Requirements	48,587	—
Long-Term Debt	—	1,533,838
Liabilities Subject to Settlement Upon Reorganization (Notes 5 and 7)	1,691,115	—
Total Capitalization	2,274,313	2,302,838
Current Liabilities		
Estimated Future Seabrook Expenditures (Note 3)	32,669	—
Accounts Payable	54,025	54,025
Seabrook Comprehensive Settlement (Notes 2 and 3)	7,844	—
Accrued Pension Costs	6,909	16,825
Accrued Interest	7,872	—
Estimated Cancellation Costs for Seabrook Unit 2	12,345	12,345
Other	14,095	14,095
Total Current Liabilities	135,759	97,290
Deferred Credits		
Accumulated Deferred Investment Tax Credits (Note 6)	16,669	16,669
Accumulated Deferred Taxes on Income (Note 6)	700	—
Deferred Seabrook Comprehensive Settlement (Notes 2 and 3)	16,000	16,000
Other	4,080	4,080
Total Deferred Credits	37,449	36,749
Commitments and Contingencies (Notes 1 and 2)		—
	$2,447,521	$2,436,877

1. The Company's Bankruptcy

The Filing. On January 28, 1988, the Company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code.

The financial difficulties that led to the Company's bankruptcy were attributable to a combination of several factors: the magnitude of the Company's investment in the Seabrook Nuclear Generating Station Unit 1 ("Seabrook"), which represents more than half of the book value of the Company's assets on its financial statements.

The Plan of Reorganization

The goal of a Chapter 11 reorganization case is a reorganization plan that resolves all claims against and equity interests in the reorganizing company. Since shortly after the filing of the Chapter 11 case, the Company engaged in negotiations with the State, the two Committees, and others to develop a plan that is supported by all of the major parties in the case. During the same period, others have attempted to do the same, including Northeast Utilities ("NU"), New England Electric System, and The United Illuminating Company, all of which sought to acquire or merge with the Company under a reorganization plan. On December 13, 1989, the Company announced its support for a plan (the "Plan") proposed by NU and also supported by the two Committees, the majority in amount of holders of the Company's Third Mortgage Bonds (and obligations secured by those bonds), and the State. NU is a registered public utility holding company with operations in Connecticut and Massachusetts. On April 20, 1990, the Bankruptcy Court confirmed the Plan. (See "Confirmation of the Plan," below).

The Rate Plan. The Plan is based on an agreement (the "Rate Plan") regarding rates and power supply between Northeast Utilities Service Company ("NUSCO"), an NU subsidiary, on behalf of NU, and the Governor and the Attorney General of the State of New Hampshire, on behalf of the State. The New Hampshire legislature approved the Rate Plan on December 14, 1989, subject to NHPUC review. The Rate Plan, which permits a departure from the anti-CWIP statute, provides for seven annual 5.5% increases in the Company's retail rates, commencing January 1, 1990. The first increase has already been implemented, and the amounts collected are currently being held in escrow, subject to final approval and effectiveness of the merger described below, except as to amounts to be collected from the later of final approval or July 1, 1990 through the Effective Date of the Plan, discussed below. The effectiveness of the Rate Plan is contingent upon NHPUC approval. The Rate Plan will be effective for Reorganized PSNH even if the merger with NU is not consummated.

The Plan. The Plan provides for the acquisition of the Company by NU in either a one-step or two-step transaction, depending on when certain regulatory approvals for the acquisition are obtained, and the distribution of up to $2.3 billion in cash and securities on the date (the "Effective Date") the Plan becomes effective and the Company emerges from reorganization as Reorganized PSNH. The Effective Date deadline specified in the Plan is August 1, 1990, but the Plan permits the deadline to be extended by the agreement of NU and the two Committees.

There are certain conditions to the Effective Date, including certain tax rulings, allowance in the reorganization case of not more than $900 million in unsecured claims against the Company, and certain regulatory approvals. The regulatory approvals required for the Plan to become effective include the NHPUC's approval of the Rate Plan and the issuance of securities of Reorganized PSNH, the approval (or waiver of jurisdiction by) the Connecticut Department of Public Utility Control with respect to securities issuance, and the approvals of certain transitional management arrangements, discussed below, by the Federal Energy Regulatory Commission ("FERC") and the United States Securities and Exchange Commission ("SEC"). The Company believes that these conditions can be met by the August 1 deadline or shortly thereafter. The FERC and the SEC have already approved the transitional management arrangement, and the NHPUC has set a hearing schedule that would result in its rendering a decision by early to midsummer 1990.

The Acquisition of the Company by NU. The Plan provides for NU's ultimate acquisition of the Company through the Company's merger with a wholly owned subsidiary of NU that is to be formed solely for the purpose of effectuating the acquisition. At the time of the merger (or as soon thereafter as practicable) the Company's interest in Seabrook will be transferred to a newly formed subsidiary

of NU, North Atlantic Energy Company (''NAEC''), whose sole asset will be the Company's Seabrook interest. NAEC will enter into a contract with a Reorganized PSNH under which Reorganized PSNH will purchase the entire output of NAEC's interest in Seabrook for the life of the Seabrook license. Another NU subsidiary would be appointed as operator of Seabrook if required approvals of the Seabrook Joint Owners and the NRC are received.

If all regulatory approvals for NU's acquisition of the Company are obtained by the Effective Date, then the acquisition will occur on the Effective Date (the one-step transaction). Otherwise, the Company will emerge from reorganization as a stand-alone company, subject to a contractual obligation to be acquired by NU (the two-step transaction) upon the satisfaction of certain conditions. In the two-step transaction, holders of unsecured claims and of shares of the Company's existing Preferred and Common Stock will receive shares of Common Stock of Reorganized PSNH. When the acquisition ultimately occurs, holders of shares of Common Stock of Reorganized PSNH will receive not less than $20 per share, in cash, and NU will acquire all shares of Reorganized PSNH's Common Stock. Based upon the current schedule in the FERC proceeding, it appears likely that the acquisition of the Company will be accomplished as a two-step transaction.

Distribution to Creditors and Shareholders Under the Plan. Under the Plan, all holders of secured claims (other than two existing issues of pollution control revenue bonds in the amounts of $100 million and $112.5 million, which may be assumed and reinstated by Reorganized PSNH under the Plan) will receive cash in the full amount of their claims for principal, interest, and interest on interest. Holders of unsecured claims will receive cash and, if the acquisition is a two-step transaction, shares of Common Stock of Reorganized PSNH. Holders of shares of existing Preferred and Common Stock of the Company will receive notes that are contingent on Seabrook achieving certain licensing and operational milestones and either cash and warrants to purchase shares of NU Common Stock, if the acquisition is a one-step transaction, or shares of Common Stock of Reorganized PSNH and certificates entitling the holder to receive warrants to purchase shares of NU Common Stock when (and if) the acquisition by NU occurs, if the acquisition is a two-step transaction. Holders of the Company's outstanding Warrants (and any claims arising with respect to such Warrants) will receive in the aggregate $1.3 million in cash. The total amount of cash and face amount of securities (including the contingent notes) to be distributed to creditors and equity holders under the Plan is approximately $2.3 billion.

Confirmation of the Plan. On January 3, 1990, the Bankruptcy Court formally approved a disclosure statement for the Plan, ordered the Plan, the disclosure statement, and ballots for the Plan transmitted to all of the Company's creditors and equity security holders, and set April 4, 1990 as the date for commencement hearings on confirmation of the Plan. On April 20, 1990, following six days of hearings, the Bankruptcy Court entered orders overruling all objections to confirmation, finding all conditions to confirmation set forth either in the Bankruptcy Code or in the Plan satisfied, and confirming the Plan (the ''Confirmation Order'').

Pro Forma Effects of Proposed Reorganization

The proposed plan of reorganization (the ''Plan'') and the underlying agreement regarding rates between Northeast Utilities (''NU'') and the State of New Hampshire (the ''Rate Plan'') are assumed to be approved without modification by the Bankruptcy Court (which has already occurred) and other necessary regulatory agencies. Absent such approval, it is expected that the Company would file a rate case with the New Hampshire Public Utilities Commission for Seabrook recovery and attempt to formulate a new plan of reorganization.

Conditions to the Effective Date of the Plan state that the aggregate petition date amount of general unsecured claims not exceed $900 million. There is no assurance that the aggregate amounts of the allowed claims in these classes will be less than $900 million, and if the aggregate amounts of allowed claims exceed that amount, the reorganization of the Company under the Plan will not occur unless the condition is waived by all parties to the Plan. The Plan and the related pro forma balance sheet assume $857.4 million in general unsecured claims. It is also assumed that all the contingencies relating to the Contingent Notes will be met, allowing the notes to be honored at their full face amount of $205 million.

The common stock of Reorganized PSNH is assumed to be owned by shareholders who prior to confirmation of the Plan owned less than 50% of the Company's Common Stock. Reorganized PSNH is assumed to emerge from the Company's reorganization as a party to an agreement of merger with NU. There is no assurance that the merger will be consummated. This pro forma balance sheet does not reflect that merger. If the reorganization contemplated by the Plan was consummated at December 31, 1989, the pro forma impact on the balance sheet would be as follows:

Balance Sheets at December 31, 1989
Pro Forma Reorganization

	Actual	Adjustments	Reorganized PSNH
		(Thousands of dollars)	
ASSETS			
Utility Plant at Cost			
Electric Plant	$1,024,904	$ —	$1,024,904
Less: Accumulated Provision for Depreciation	343,810	—	343,810
Regulatory Asset	—	a 836,540	836,540
Unfinished Construction: Seabrook	1,529,210	b (829,210)	700,000
Other	1,290	—	1,290
Net Utility Plant	2,211,594	7,330	2,218,924
Investments	21,429		21,429
Current Assets			
Cash and Temporary Investments	44,138	c (44,138)	—
Accounts Receivable—Net	63,159		63,159
Other Current Assets—Net	87,321		87,321
Other Assets Deferred Charges	14,911	d (7,211)	7,700
Other	4,969	e 33,375	38,344
	$2,447,521	$ (10,644)	$2,436,877
CAPITALIZATION & LIABILITIES			
Capitalization			
Common Stock Equity			
Common Stock	$210,773	f $ 433,227	$644,000
Other Paid In Capital	435,420	(435,420)	—
Retained Earnings	(532,195)	532,195	—
Total Common Stock Equity	113,998	530,002	644,000
Preferred Stock	469,200	f (344,200)	125,000
Liabilities Subject to Settlement Upon Reorganization	1,691,115	f (1,691,115)	—
Pollution Control Revenue Bonds	—	g 212,500	212,500
First Mortgage Bonds	—	h 612,500	612,500
Term Loans	—	h 503,838	503,838
Contingent Notes	—	f 205,000	205,000
Total Capitalization	2,274,313	28,525	2,302,838
Accounts Payable	54,025		54,025
Other Current Liabilities	81,734	i (38,469)	43,265
Deferred Credits			
Accumulated Deferred Investment Tax Credits	16,669		16,669
Accumulated Deferred Taxes on Income	700	j (700)	—
Other	20,080		20,080
	$2,447,521	$ (10,644)	$2,436,877

See Assumptions and Notes to Pro Forma Balance Sheet

Assumptions and Notes For Pro Forma Balance Sheet:

a. To record a regulatory asset allowed under the terms of the Rate Plan, the regulatory asset is calculated as the difference between the amounts paid by Reorganized PSNH to former creditors and equity security holders in excess of the non-Seabrook net assets of Reorganized PSNH and the value assigned to Seabrook. Reorganized PSNH will apply Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," for all assets. See Note 3.

b. To reduce Seabrook value to $700 million, the amount of recovery permitted in the Rate Plan, the Rate Plan includes a phase-in of the Seabrook value which will allow Reorganized PSNH to apply Statement of Financial Accounting Standards No. 92, "Regulated Enterprises—Accounting for Phase-In Plans." Taken as a whole, the effect of the Rate Plan is not detrimentally different than recovery of approximately $1.5 billion for Seabrook under traditional rate-making.

c. Cash is reduced to reflect estimated amounts to be paid to creditors ($10.7 million) and amounts paid for administrative costs and expenses of the Plan ($33.4 million).

d. Unamortized debt expense ($4.3 million) associated with debt issues repaid under the Plan is eliminated and a nuclear fuel purchase contract termination charge ($2.9 million) is eliminated because recovery is not specifically provided for by the Rate Plan.

e. To reflect the cash reserved for payment of administrative costs and expenses of the Plan.

f. Holders of secured claims, other than those described in *g*, below, will receive cash in the full amount of their claims for principal, interest, and interest on interest. The existing unsecured debt will be paid in cash and shares of common stock of Reorganized PSNH, based on the principal amount outstanding less the original unamortized discount plus prepetition interest and $110.6 million in post-petition interest. Holders of shares of existing Preferred and Common Stock of the Company will receive notes that are contingent on Seabrook's achieving certain licensing and operational milestones, shares of common stock of Reorganized PSNH and certificates for warrants to purchase shares of NU common stock when (and if) the acquisition by NU occurs.

g. The two existing series of pollution control revenue bonds, totalling $212.5 million, are assumed to be reinstated by Reorganized PSNH.

h. To record the issuance of new debt securities issued to make the cash payments described in *f*, above.

i. Pre-petition accrued pension costs of approximately $9.9 million continue to be a liability of Reorganized PSNH. Approximately $7.9 million in post-petition accrued interest on the First Mortgage Bonds and General and Refunding Mortgage Bonds is eliminated due to settlement of these obligations upon reorganization. Since post-reorganization Seabrook capital expenditures are recoverable under the Rate Plan, Seabrook reserves for pre-operational expenditures of approximately $40.5 million, have been eliminated.

j. Based on net operating loss carryforwards expected to be available to Reorganized PSNH, no significant provisions for deferred income taxes are required as of December 31, 1989. At December 31, 1989, the Company had significant net operating loss ("NOL") carryforwards. See Note 6, "Income Taxes." Due to the effects of the reorganization, NOL usage may be limited so that some may expire unused. Additionally, the balance of NOL carryforwards may be reduced by as much as $155 million.

Independent Auditors' Report

We have audited the accompanying balance sheets and statements of capitalization of Public Service Company of New Hampshire as of December 31, 1989 and 1988, and the related statements of earnings, cash flows, and changes in common stock equity for each of the years in the three-year period ended December 31, 1989. In connection with our audits of the financial statements, we also have audited the financial statement schedules as listed in the index under Item 14. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedules are free of material misstatement. An audit

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 Public Service Company of New Hampshire at December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1989, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the financial statements, on January 28, 1988 the Company filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. The Company is now operating its business as a debtor-in-possession. In December 1989, the Company announced its support for a proposed plan of reorganization (the Plan). The Plan has been voted upon by the Company's creditors and equity security holders and has been confirmed by the Bankruptcy Court. Consummation of the Plan is subject to many conditions including the receipt of certain tax rulings, the allowance by the Bankruptcy Court of not more than $900 million in unsecured claims against the Company, the approval of many regulatory authorities, and the issuance of approximately $2.3 billion of debt and equity securities to finance the Plan. Based on confirmation of the Plan, the Company's 1989 financial statements include a provision for impairment of its Seabrook investment as described in Note 3. The financial statements do not include any other adjustments relating to the recoverability and classification of liabilities that might result from the consummation of the Plan, or that may result if an alternative plan is adopted.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Additionally, we examined the pro forma adjustments reflecting the proposed reorganization of Public Service Company of New Hampshire described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma balance sheet of Reorganized PSNH (a new entity) as of December 31, 1989. Such pro forma adjustments are based upon current management's assumptions described in Note 1. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the Plan been consummated on December 31, 1989. However, the pro forma balance sheet is not necessarily indicative of the financial position that would have resulted if the Plan had actually been consummated earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the Plan described in Note 1, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma balance sheet of Reorganized PSNH as of December 31, 1989 reflects the proper application of those adjustments to the historical balance sheet of the Company as of December 31, 1989.

KPMG PEAT MARWICK
Boston, Massachusetts
March 2, 1990; except as to the pro forma balance sheet and Notes 1 and 3,
which are as of April 20, 1990.

SWANK, INC., DECEMBER 31, 1987

Consolidated Balance Sheets
As of December 31, 1987

	Unaudited Pro Forma 1987 (Note K)	1987
ASSETS		
Current:		
Cash	$2,805	$2,805

	Unaudited Pro Forma 1987 (Note K)	1987
Accounts receivable, less allowances of $5,412,000 and $5,571,000	$25,482	$25,482
Inventories:		
Raw materials	13,546	13,546
Work in process	6,038	6,038
Finished goods	23,891	23,891
	43,475	43,475
Prepaid and other	6,419	6,419
Total current assets	78,181	78,181
Property, plant and equipment, at cost:		
Land and buildings	6,787	6,787
Machinery and equipment	13,193	13,193
Improvements to leased premises	1,463	1,463
	21,443	21,443
Less accumulated depreciation and amortization	14,202	14,202
	7,241	7,241
Building under capital lease, net of amortization of $1,511,000 and $1,352,000	1,989	1,989
	9,230	9,230
Intangible assets (principally goodwill), net of amortization of $1,129,000 and $974,000	4,757	4,757
Deferred taxes	1,054	1,054
Other assets	3,080	1,871
	$96,302	$95,093
LIABILITIES		
Current:		
Notes payable to banks	$ 2,097	
Current obligations under capital lease and industrial revenue bonds	112	$ 726
Current portion of long-term obligations	8,000	
Accounts payable	5,095	5,095
Accrued employee compensation	1,656	1,656
Federal income taxes:		
Current	1,446	1,446
Deferred	1,390	1,390
Other liabilities	5,977	5,977
Total current liabilities	25,773	16,290
Long-term obligations	45,236	8,032
Deferred tax liabilities	1,939	1,939
Stockholders' Equity		
Common stock, par value $1.00:		
Authorized 6,000,000 shares; issued 3,485,928 and 3,475,619 shares		3,486
Common stock (New Shares), par value $0.10, authorized 66,000,000 shares; issued 27,684,000 shares	2,768	
Capital in excess of par value		12,491
Retained earnings	22,778	55,047
	25,546	71,024
Less:		
Treasury stock at cost, (Pro forma 198,000) 9,131 and 19,219 shares	167	167

Consolidated Balance Sheets (continued)

	Unaudited Pro Forma 1987 (note K)	1987
Deferred employee benefits	$ 2,025	2,025
Total stockholders' equity	23,354	68,832
	$96,302	$95,093

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

K. Subsequent Event

On February 29, 1988, the Company's shareholders approved a recapitalization of the Company. Under the Plan of Recapitalization and (subject to court approval) settlement of certain claims relating thereto, public stockholders will receive $18.10 in cash (totaling approximately $42,091,000) and one share of a new series of $0.10 par value common stock of the recapitalized company in exchange for each share presently held. Each share presently held by management and by the Company's employee stock ownership, pension, and savings plans (collectively the "employee plans") will be exchanged for shares of new common stock in an exchange ratio to be determined under a formula. As a result of the Recapitalization, the percentage of outstanding shares owned by management and by the employee plans will increase from approximately 33.3% to approximately 91.5%. In addition, stock options outstanding will be converted into options to purchase shares of new common stock in the same exchange ratio.

The Company expects to finance the Recapitalization, pay the related expenses (presently estimated at $6,000,000), of which approximately $1,404,000 was paid prior to December 31, 1987 and is included in other assets, and retire all existing indebtedness other than capitalized leases with the proceeds of a new $50,000,000 Bank Term Loan (Series I, $42,000,000, will be payable over seven years ending January 31, 1995; and Series II, $8,000,000, will be payable October 29, 1988) and, if necessary, from a new $15,000,000 Revolving Credit Facility which replaces all of the Company's existing lines of credit.

The Recapitalization will be accounted for as a redemption of shares. Accordingly, the pro forma information is presented based on the historical carrying values of the Company's assets and liabilities. The unaudited pro forma balance sheet reflects adjustments to record the Recapitalization, which consist primarily of increases in indebtedness to finance the payments to public stockholders and the related expenses and corresponding reductions in stockholders' equity. Debt issuance expenses of approximately $2,613,000 will be capitalized and deferred and the remaining $3,387,000 of expenses will be charged to stockholders' equity. Pro forma equity adjustments due to the Recapitalization are based on an assumed exchange ratio of 21.685714 which results in approximately 27,486,000 shares outstanding at December 31, 1987 on a pro forma basis.

The new debt will be collateralized by all of the Company's assets and the banks will obtain warrants to acquire at $0.20 per share a minimum of 5% and a maximum of 10% of the recapitalized Company's stock. The warrants become exercisable in the event that Series II is not repaid in full at maturity through cash flow as determined by a formula.

The new Credit Agreement prohibits payment of dividends prior to December 31, 1988, and limits dividends thereafter to 25% of the prior year's net income, provided the Company's liabilities do not exceed tangible net worth, as defined. In addition, the agreement requires the Company to meet certain ratios, maintain minimum amounts of tangible net worth, limits capital expenditures, prohibits additional indebtedness over specified amounts, and contains other covenants normally associated with such agreements.

IV

PRO FORMA STATEMENTS PRESENTED IN NOTES TO THE HISTORICAL STATEMENTS—ACQUISITION OR DISPOSITION BY THE REPORTING ENTERPRISE OF AN INVESTMENT IN AN ENTERPRISE

Some companies in NAARS have presented pro forma financial statements reflecting subsequent events in the notes to the historical financial statements. The subsequent event reflected in the pro forma statements is commonly the acquisition or disposition by the reporting enterprise of an investment in an enterprise.

Eleven examples are presented below of pro forma statements that were presented in notes to the historical statements and that reflected acquisition or disposition of an investment in an enterprise. The examples are classified according to whether they pertain to acquisitions or dispositions.

In five examples, a pro forma balance sheet without a pro forma income statement was presented. In five examples, both a pro forma balance sheet and a pro forma income statement were presented. In one example, a pro forma income statement without a pro forma balance sheet was presented.

ACQUISITIONS OF INVESTMENTS IN ENTERPRISES

BANC ONE CORPORATION, DECEMBER 31, 1989

Notes to Financial Statements

Note 3 Pending Affiliations

As of December 31, 1989, the Corporation had agreements pending for the acquisition of three banks, a savings bank, and an investment banking company. A seven and one-half percent interest in BANK ONE, TEXAS, NA, Dallas, Texas (Texas), which the Corporation has been managing since July 5, 1989 for the Federal Deposit Insurance Corporation (FDIC), was acquired effective January 1, 1990 for $34 million. The FDIC invested $416.3 million in the common stock of Texas. Texas also has an unrelated note from the FDIC. The Shareholders' Agreement provides for the acquisition by the Corporation of the remaining 92 1/2 percent interest over a period not exceeding five years at a cost ranging from $303.8 million to $426 million plus an amount approximating the FDIC cost to carry from January 1, 1990 to date of purchase by the Corporation.

This regulatory-assisted transaction will be accounted for as a purchase. The FDIC's assistance begins with the recapitalization of Texas. All assets will be marked to market with the FDIC providing

notes to cover any negative capital position. After January 1, 1990, the FDIC will continue to provide assistance. During the first year subsequent to January 1, Texas will be able to segregate an unlimited amount of Texas problem assets into a collection pool subject to credit losses reaching 0.5% of Texas "non-collection pool" loans. In the second year, Texas will be able to transfer up to $600 million problem assets into the collection pool subject to credit losses reaching 0.6% of "non-collection pool" loans. Throughout the first five years, the FDIC will reimburse BANC ONE for the management of and the carrying costs of assets in the collection pool. The FDIC will pay BANC ONE an incentive fee of 5% of net cash collected on collection pool assets during the first two years and 4% during the third through fifth years.

On February 2, 1990, BANC ONE acquired certain assets and liabilities of the former Bright Banc Savings Association (Bright) of Dallas, Texas. BANC ONE assumed approximately $2.7 billion of deposit obligations and purchased approximately $900 million of residential mortgage loans, $145 million of installment loans, and $600 million of investment securities. The Resolution Trust Corporation (RTC) provided sufficient assets to make the assets acquired equal the liabilities net of a $45 million premium paid by BANC ONE. These assets and liabilities have been merged into Texas.

On February 9, 1990, certain assets and liabilities of Community Savings & Loan Association of Fond du Lac (Community) were acquired in an RTC-assisted transaction for a premium of $101 thousand. Community was accounted for as a purchase.

Metropolitan Bancorp, Lima, Ohio (Metropolitan); Home Federal Savings Bank, Northern Ohio (Home Federal); D.S.B. Bancshares Inc., Wisconsin (DSB); and Meuse, Rinker, Chapman, & Endres, an investment banking firm (Meuse); will be acquired for a total of 3,980,057 shares of stock and $7,500,000. Meuse will be accounted for as a purchase. Metropolitan, which will be merged into BANK ONE, LIMA; Home Federal, which will be merged into BANK ONE, CLEVELAND, NA; and DSB will be accounted for as poolings of interests. All of the above are expected to be acquired during 1990 and most are subject to regulatory and their respective shareholders' approval. Meuse, Metropolitan, DSB, Community, and Home Federal are not significant in the aggregate to the Corporation. Operating results of Texas and Bright prior to acquisition are not meaningful since they were operating under the auspices of the FDIC and RTC, and experienced income and expenses unrelated to normal operations. Accordingly, no operating results are provided below.

Following is a condensed, combined balance sheet as of December 31, 1989 for Texas, including Bright, which is presented as of February 2, 1990. Finalization of the mark to market adjustments necessary for the Texas acquisition is in process. This balance sheet includes an estimate of those adjustments.

BANK ONE, Texas, NA
Pro Forma Combined Balance Sheet
December 31, 1989
(Dollars in millions) (Unaudited)

ASSETS	
Cash and due from banks	$776
Investments and interest bearing deposits	3,970
Net loans and leases	5,465
Special asset pool	2,542
Due from FDIC	729
Other assets	519
	$14,001
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$11,722
Borrowings	1,304
Other liabilities	350
Total liabilities	13,376
Stockholders' equity	625
	$14,001

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements

2. Acquisitions

On January 27, 1989, the Company acquired all of the outstanding common stock of The Coca-Cola Bottling Company of West Virginia, Inc. ("West Virginia") from The Coca-Cola Company in exchange for 1,100,000 shares of the Company's common stock and $2 million. Funds used for the cash portion of the acquisition were obtained from working capital. The Coca-Cola Company now owns approximately a 30 percent interest in the Company. (See Footnote 11 to the Consolidated Financial Statements for additional information.)

The acquisition of West Virginia will be accounted for under the purchase method of accounting. Accordingly, the purchase price will be allocated to the net assets acquired based upon their estimated fair values.

The following unaudited pro forma summary balance sheet gives effect to the West Virginia acquisition as though it had occurred on December 31, 1988. Estimates have been made of the fair value of assets acquired and liabilities assumed. The actual adjustments to record the acquisition will be made after final appraisals have been received and may differ from those included in the pro forma information.

	Unaudited, Pro Forma December 31, 1988
	(In thousands of dollars)
Current assets	$ 57,587
Property, plant, and equipment, net	134,327
Other assets	8,827
Identifiable intangible assets	169,616
Excess of cost over fair value of net assets of businesses acquired	83,651
Total assets	$454,008
Current liabilities	$ 39,000
Other liabilities	14,151
Long-term debt	216,417
Total liabilities	269,568
Shareholders' equity	184,440
Total liabilities and shareholders' equity	$454,008

The following unaudited pro forma combined summary results of operations for the year ended December 31, 1988, give effect to the acquisition as though it had occurred at the beginning of the year. The pro forma earnings are not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of the period presented, nor are they necessarily indicative of the results of future operations.

	Unaudited, Pro Forma Year Ended December 31, 1988
	(In thousands of dollars; except per share data)
Net sales	$372,062
Costs and expenses	345,323
Income from operations	$ 26,739
Net income (loss)	$(526)
Net income (loss) per share	$(0.06)

11. Capital Transactions

On January 27, 1989, the Company acquired all of the outstanding common stock of The Coca-Cola Bottling Company of West Virginia, Inc. from The Coca-Cola Company in exchange for 1,100,000 shares of the Company's Common Stock and $2 million. Upon completion of this transaction, The Coca-Cola Company owns approximately 30 percent of the outstanding capital stock of the Company.

HANGER ORTHOPEDIC GROUP, INC., DECEMBER 31, 1989

Hanger Orthopedic Group, Inc.
Notes to Consolidated Financial Statements

NOTE J—Subsequent Event

On February 13, 1990, the Company (i) acquired the capital stock of Scott Orthopedics, Inc., Scott Orthopedics of Northern Colorado, Inc., and Albuquerque Prosthetic Center (collectively referred to as "Scott") for $3,025,000; (ii) entered into non-compete agreements with three former Scott security holders for $800,000; and (iii) paid $25,000 for a 60-day option to acquire 50% of Scott Orthopedic Laboratories, Inc., another company controlled by the selling shareholders of Scott.

Financing for the above transactions was provided by (i) borrowing from the Bank a total of $2,546,000, of which $2,000,000 was evidenced by the execution of a term note and $546,000 was borrowed under the Company's revolving credit line with the Bank, which was increased from $2,000,000 to $3,000,000; (ii) $500,000 of 14% subordinated debt furnished by CVCA; (iii) the issuance to certain Scott executives of 111,112 shares of Common Stock and 300 shares of class C Preferred Stock for cash totaling $250,000; and (iv) the issuance to CVCA and certain Hanger executives of 100 shares of class D Preferred Stock and 100 shares of class E Preferred Stock for cash totaling $910,000. In addition, the Company reserved 103,556 shares of common stock for possible issuance to the Bank under the terms of an existing warrant agreement, as amended. Financing in excess of the cost of the acquisition for Scott, the non-compete agreements and $99,000 in Scott debt refinancing was used to pay for transaction expenses and to provide additional working capital.

The transaction has been accounted for as a business combination in accordance with the purchase method. In applying the purchase method, 1% of the Company's investment in Scott, representing the voting interest in Hanger owned by the former Scott security holders, has been valued at the predecessor's basis rather than at fair value.

Basis of Presentation. The unaudited pro forma financial statements are presented to illustrate (i) the pro forma effects of the transaction described above on the Company's financial position as of December 31, 1989 as if the transaction occurred on that date and (ii) the pro forma effects on the Company's results of operations for the combined ten months ended December 31, 1989 and the two months ended February 28, 1989 as if the transaction had occurred on January 1, 1989. The two months ended February 28, 1989 represent the results of operations of J.E. Hanger, Inc. prior to the acquisition by CVCA as more fully described in Note A. The unaudited pro forma financial statements include adjustments resulting from the purchase accounting and financing and are not necessarily indicative of what the combined financial position or results of operations would have been had the transaction occurred on January 1, 1989, nor are they necessarily indicative of future results of the combined entities.

Hanger Orthopedic Group, Inc.
Pro Forma Combining Condensed Balance Sheet
December 31, 1989
(Unaudited)

	HOG Historical	Scott Historical
Total Current Assets	$ 5,151,262	$ 1,239,484
Property Plant & Equipment, Net	4,176,196	224,520
Intangible Assets, Net	9,144,189	
Other Assets	42,420	98,522
Total Assets	$18,514,067	$1,562,526

	HOG Historical	Scott Historical
Total Current Liabilities	$ 2,237,716	$ 450,131
Other Liabilities	54,448	
Long-Term Debt	13,980,032	15,762
Redeemable Preferred Stock	556,904	
Shareholders' Equity	1,684,967	1,096,633
Total Liabilities & Shareholders' Equity	$18,514,067	$1,562,526

	Pro Forma Adjustments	Pro Forma Combined
Total Current Assets	$ 44,419	$6,435,165
Property Plant & Equipment, Net		4,400,716
Intangible Assets, Net	2,899,457	12,043,646
Other Assets	25,000	165,942
Total Assets	$ 2,968,876	$23,045,469
Total Current Liabilities	$ (61,581)	$ 2,626,266
Other Liabilities		54,448
Long-Term Debt	2,929,725	16,925,519
Redeemable Preferred Stock	442,000	998,904
Shareholders' Equity	(341,268)	2,440,332
Total Liabilities & Shareholders' Equity	$ 2,968,876	$23,045,469

Hanger Orthopedic Group, Inc.
Pro Forma Combining Condensed Statement of Operations
For the Year Ended December 31, 1989
(Unaudited)

	HOG Historical	Scott Historical
Sales	$11,607,470	$ 3,806,109
Operating Expenses	10,853,046	3,731,910
Income (Loss) from Operations	754,424	74,199
Interest Expense	(1,708,363)	(17,961)
Other Income	117,213	4,166
Provision for Taxes	(11,700)	(32,791)
Net Income (Loss)	$ (848,426)	$ 27,613
Weighted Average Shares Outstanding		9,218,370
Loss per Share		$ (0.19)

	Pro Forma Adjustments	Pro Forma Combined
Sales	$ (17,839)	$15,395,740
Operating Expenses	163,219	14,748,175
Income (Loss) from Operations	(181,058)	647,565
Interest Expense	(800,106)	(2,526,430)
Other Income		121,379
Provision for Taxes	44,491	
Net Income (Loss)	$ (936,673)	$ (1,757,486)
Weighted Average Shares Outstanding		9,218,370
Loss per Share		$ (0.19)

MICHAEL FOODS, INC., DECEMBER 31, 1989

Michael Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note C—Acquisition of Waldbaum's

On May 31, 1988, the Company acquired a 50% interest in Waldbaum's for $24,100,000. This transaction is being accounted for as an investment in an unconsolidated subsidiary using the equity method. The investment in Waldbaum's exceeded the Company's underlying equity in net assets by approximately $13,800,000, of which approximately $4,000,000 has been allocated to the property, plant, and equipment of Waldbaum's with the balance considered to be goodwill and amortized over 40 years.

Effective January 1, 1990, the Company entered into a binding agreement to acquire the remaining 50% interest in Waldbaum's for approximately $44,000,000. The purchase price is subject to adjustment under certain circumstances generally contingent upon future earnings. This business combination will be accounted for as a purchase. The results of Waldbaum's operations will be consolidated with those of the Company beginning January 1, 1990.

The following is summarized financial information of Waldbaum's as of December 31, 1989 and 1988 and for the year ended December 31, 1989 and the seven-month period ended December 31, 1988:

	1989	1988
Current assets	$ 33,808,000	$29,836,000
Noncurrent assets	39,843,000	29,505,000
Current liabilities	12,449,000	8,883,000
Noncurrent liabilities	27,173,000	26,463,000
Net sales	132,480,000	59,939,000
Gross profit	23,129,000	7,992,000
Net earnings	10,034,000	3,098,000

Included within the Company's consolidated retained earnings is $5,744,000 of undistributed earnings of Waldbaum's since the date of acquisition.

The following is a summarized condensed balance sheet of the Company on a pro forma basis (unaudited) as if the acquisition of the remaining 50% of Waldbaum's had occurred on December 31, 1989:

Current assets	$ 81,605,000
Property, plant, and equipment	134,960,000
Goodwill	51,472,000
Other assets	1,861,000
	$269,898,000
Current liabilities	$71,407,000
Long-term debt	85,117,000
Deferred income taxes	18,840,000
Stockholders' equity	94,534,000
	$269,898,000

NUCORP, INC., DECEMBER 31, 1989

Nucorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1989, 1988, and 1987

14. Subsequent Events:

On February 20, 1990, NI Acquisition Corp. ("NI"), a wholly owned subsidiary of the Company, consummated the acquisition of all of the outstanding common stock and approximately 99.3% of the preferred stock of United Capital Holding Company ("UCHC") for $87.3 million, which was paid in cash. Funding for the acquisition was derived in part from $58.9 million drawn under a new

credit facility provided to NI by Continental Bank, N.A. The remaining funds were derived from available cash of the Company.

Affiliates of certain officers and directors owned 12,555 shares of preferred stock of UCHC and a 50% partnership interest in a partnership which owned 96,035 shares of preferred stock of UCHC. Such affiliates also provided management services in connection with the acquisition of UCHC. The fee for these services was 1% of the purchase price for the UCHC shares purchased (excluding acquisition costs) amounting to $850,000, which was approved by the independent members of the board of directors. In addition, a law firm affiliated with a member of the board of directors of the Company provided legal services in connection with the acquisition of UCHC amounting to $153,000.

In addition, the Chairman of the Board and President of UCHC and an investment partnership in which a former director of UCHC is a partner purchased 74,907 shares and 224,720 shares, respectively, of the Company's Common Stock in accordance with the terms of certain acquisition agreements.

The increase in other assets and accounts payable in 1989 on the Company's balance sheet is primarily attributable to deferred acquisition costs related to the UCHC acquisition.

UCHC is a holding company whose operations are conducted by its wholly owned subsidiary, United Capitol Insurance Company ("United Capitol"). United Capitol began operations in 1986 as a provider of commercial property and casualty insurance coverage in the excess and surplus lines market. Excess and surplus lines consist of specialized or unique and unusual exposures which require individual risk underwriting and selection. United Capitol's predominant writings are primary general liability classes and coverages where exposure to severity of losses, rather than frequency of claims transactions, is the inherent hazard. A special primary general liability program for asbestos abatement contractors and for engineers and architects who consult on asbestos removal projects is underwritten on a claims-made basis. Difficult products liability exposures and contractors are also written. United Capitol offers commercial property insurance and recently entered the contract surety market.

The inclusion of UCHC in the Company's consolidated financial statements in 1990 will significantly increase the amount and change the nature of the Company's assets, liabilities, revenues, and expenses. The Company's operations subsequent to the date of the acquisition will be in two industry segments: property and casualty insurance, and oil and gas exploration, development, and production. The majority of the Company's assets, liabilities, revenues, and expenses are anticipated to be in the property and casualty insurance segment.

The following unaudited pro forma condensed financial statements reflect the significant changes anticipated in the Company's financial statements as a result of the acquisition of UCHC.

The unaudited pro forma condensed statement of operations for the year ended December 31, 1989, and the unaudited pro forma condensed balance sheet as of December 31, 1989, give effect to the acquisition of UCHC as if the acquisition had been completed on January 1, 1989 and December 31, 1989, respectively, based upon the assumptions set forth in the notes to such pro forma condensed financial statements. UCHC and the Company report on a calendar year basis.

The pro forma financial information is not indicative of results of operations that may have occurred had the acquisition taken place on the dates indicated above or of future results of operations of the combined companies under the ownership and operation of the Company.

The pro forma adjustments are based on available information. The actual purchase price allocations, however, will be based on ultimate estimates of fair value. Accordingly, it is expected that the actual allocations will differ from the pro forma adjustments. However, it is expected that any changes to the purchase allocation would not have a material effect on the pro forma condensed financial statements included herein.

The pro forma condensed financial statements should be read in conjunction with this Annual Report on Form 10-K and the consolidated financial statements of UCHC previously filed with the Securities and Exchange Commission in the Company's Form 8-K dated March 6, 1990.

Pro Forma Condensed Statement of Operations
For the year ended December 31, 1989
(Unaudited)

	Historical for the Year Ended 12/31/89	
	The Company	United Capitol
REVENUES:		
Insurance:		
Net earned premiums	$ —	$37,152,000
Net investment income	—	9,761,000
Realized investment gains (losses)	—	489,000
	—	47,402,000

Pro Forma Condensed Statement of Operations (continued)

	Historical for the Year Ended 12/31/89	
	The Company	United Capitol
Oil and gas	$6,351,000	$ —
Corporate investment income	1,399,000	—
	7,750,000	47,402,000
EXPENSES:		
Insurance:		
Net losses and loss adjustment expenses	—	26,507,000
Net commissions and brokerage	—	3,774,000
Other acquisition and operating expenses	—	3,716,000
	—	33,997,000
Oil and gas:		
Production, exploration and gas gathering, and processing	2,889,000	—
Depreciation, depletion, and impairment	1,737,000	—
General and administrative	1,100,000	—
	5,726,000	—
Interest expense	2,000	—
Other corporate expense	854,000	—
	6,582,000	33,997,000
Income before income taxes	1,168,000	13,405,000
Income taxes	443,000	3,267,000
Net income	$ 725,000	$10,138,000
Average number of shares outstanding	5,029,000	
Net income per share	$ 0.14	

	Pro Forma Adjustments		The Company Pro Forma Combined
	Debit	Credit	
REVENUES:			
Insurance:			
Net earned premiums	$ —	$ —	$37,152,000
Net investment income	—	n 1 2,409,000	12,170,000
Realized investment gains (losses)	—	n 2 749,000	1,238,000
	—	3,158,000	50,560,000
Oil and gas	—	—	6,351,000
Corporate investment income	n 3 1,399,000	—	—
	1,399,000	3,158,000	56,911,000
EXPENSES:			
Insurance:			
Net losses and loss adjustment expenses	—	—	26,507,000
Net commissions and brokerage	—	—	3,774,000
Other acquisition and operating expenses	n 4 2,577,000	—	6,293,000
	2,577,000	—	36,574,000
Oil and gas:			
Production, exploration and gas gathering, and processing	—	—	2,889,000
Depreciation, depletion, and impairment	—	—	1,737,000
General and administrative	—	—	1,100,000
	—	—	5,726,000
Interest expense	n 5 6,655,000	—	6,657,000

	Pro Forma Adjustments		The Company Pro Forma Combined
	Debit	Credit	
Goodwill amortization	$ n 6 576,000	$ —	$ 576,000
Other corporate expense	—	—	854,000
	9,808,000	—	50,387,000
Income before income taxes	11,207,000	3,158,000	6,524,000
Income taxes	—	n 7 1,491,000	2,219,000
Net income	$ 11,207,000	$ 4,649,000	$ 4,305,000
Average number of shares outstanding			n 8 5,328,000
Net income per share			$ 0.81

The accompanying notes are an integral part of these unaudited pro forma combined financial statements.

Pro Forma Condensed Balance Sheet
December 31, 1989
(Unaudited)

	Historical December 31, 1989	
	The Company	United Capitol
ASSETS		
Invested assets and cash:		
Fixed Maturities	$ —	$ 87,073,000
Cash and cash equivalents	29,425,000	60,885,000
	29,425,000	147,958,000
Premiums receivable, net	—	1,378,000
Accrued interest	—	1,824,000
Deferred policy acquisition costs	—	1,565,000
Deferred income taxes	—	4,799,000
Oil and gas property and equipment, net	5,588,000	—
Other assets	1,717,000	2,398,000
Total assets	$36,730,000	$159,922,000
LIABILITIES		
Reserves:		
Unpaid losses and loss adjustment expenses	$ —	$ 68,995,000
Unearned premiums	—	11,862,000
	—	80,857,000
Reinsurance payable	—	4,853,000
Long-term debt	—	—
Other liabilities	1,759,000	3,928,000
Total liabilities	1,759,000	89,638,000
Shareholders' equity		
Preferred stock	—	4,000
Common stock	347,000	1,000
Additional paid-in capital	33,706,000	43,833,000
Retained earnings	918,000	26,575,000
	34,971,000	70,413,000
Less: common shares of treasury stock	—	(129,000)
Total shareholders' equity	34,971,000	70,284,000
Total liabilities and shareholders' equity	$36,730,000	$159,922,000

	Pro Forma Adjustments	
	Debit	Credit
ASSETS		
Invested assets and cash:		
Fixed Maturities	$ —	f $ 775,000

Pro Forma Condensed Balance Sheet (continued)

	Pro Forma Adjustments	
	Debit	Credit
Cash and cash equivalents	$ 2,000,000	$ bg 29,259,000
	2,000,000	30,034,000
Premiums receivable, net	—	—
Accrued interest	—	—
Deferred policy acquisition costs	—	c 1,565,000
Deferred income taxes	—	d 4,799,000
Oil and gas property and equipment net	—	—
Other assets	ce 4,920,000	e 2,130,000
Excess cost over net assets acquired	cehg 25,294,000	ceh 3,378,000
Total assets	$ 32,214,000	$ 41,906,000
LIABILITIES		
Reserves:		
Long-term debt	$ —	$ b 58,925,000
Other liabilities	gh 333,000	—
Total liabilities	333,000	58,925,000
SHAREHOLDERS' EQUITY		
Preferred stock	b 4,000	—
Common stock	b 1,000	a 15,000
Additional paid-in capital	b 43,833,000	a 1,985,000
Retained earnings	b 26,575,000	
	70,413,000	2,000,000
Less: common shares of treasury stock	—	b 129,000
Total shareholders' equity	70,413,000	2,129,000
Total liabilities and shareholders' equity	$ 70,746,000	$ 61,054,000

	The Company Pro Forma Combined
ASSETS	
Invested assets and cash:	
Fixed Maturities	$ 86,298,000
Cash and cash equivalents	63,051,000
	149,349,000
Premiums receivable, net	1,378,000
Accrued interest	1,824,000
Oil and gas property and equipment, net	5,588,000
Other assets	6,905,000
Excess cost over net assets acquired	21,916,000
Total assets	$186,960,000
LIABILITIES	
Reserves:	
Unpaid losses and loss adjustment expenses	$ 68,995,000
Unearned premiums	11,862,000
	80,857,000
Reinsurance payable	4,853,000
Long-term debt	58,925,000
Other liabilities	5,354,000
Total liabilities	149,989,000
Shareholders' equity	
Common stock	362,000
Additional paid-in capital	35,691,000
Retained earnings	918,000
Total shareholders' equity	36,971,000
Total liabilities and shareholders' equity	$186,960,000

The accompanying notes are an integral part of these unaudited pro forma combined financial statements.

Notes to Unaudited Pro Forma Condensed Financial Statements:

The following pro forma adjustments have been applied to the historical condensed statements of operations of the Company and UCHC to give effect to the acquisition of UCHC as if the acquisition occurred on January 1, 1989:

Note (n)1. To reflect the estimated increase in UCHC's net investment income as a result of higher yields by replacing tax exempt investments with taxable investments. In addition, net investment income increased as a result of amortizing into income a discount from the January 1, 1989 write down of bonds in UCHC's investment portfolio to fair value.

n2. UCHC's realized investment gains increased as a result of recoveries of unrealized losses on securities which existed on January 1, 1989 due to stating the investment portfolio at fair value as of that date.

n3. The Company's corporate investment income decreased as a result of utilizing substantially all investments (included in cash and cash equivalents on the historical balance sheet) to acquire UCHC as of January 1, 1989.

n4. To reflect additional other acquisition and operating expenses as a result of establishing an intangible asset relating to the future profits associated with the unearned premium reserve and the elimination of historical UCHC deferred acquisition costs and amortizing the intangible asset to expense during 1989.

References to "acquisition and operating expenses" and "deferred acquisition costs" with respect to UCHC pro forma adjustments refer to costs associated with the generation of insurance premiums and not acquisition costs of the Company to acquire UCHC capital stock.

n5. To reflect the estimated increase in interest expense relating to the borrowing required to finance the acquisition of UCHC including amortization of deferred financing fees.

The above adjustment was based on the need for approximately $58.9 million of new financing to fund a portion of the purchase price of UCHC. The calculation of interest expense reflects a $6 million principal payment on October 31, in accordance with the terms of the loan.

n6. To reflect the amortization of the excess cost over net assets acquired over 40 years.

n7. To reflect the income tax effects of pro forma adjustments (n1), (n3), and (n5). All other adjustments represent items which will not be tax deductible.

n8. The pro forma average number of shares outstanding during the year is higher than the historical average due to reflecting the issuance of 299,627 shares of the Company's Common Stock as of January 1, 1989 to affiliates of UCHC (actually issued in February 1990) in connection with the UCHC acquisition.

The following pro forma adjustments have been applied to the historical consolidated balance sheets of the Company and UCHC to give effect to the acquisition of UCHC as if the acquisition occurred December 31, 1989:

a. To reflect the purchase of 299,627 shares of the Company's Common Stock by affiliates of UCHC in connection with the acquisition of UCHC, which resulted in an increase of cash of $2 million.

b. To reflect the Company's investment in UCHC, including the utilization of $28.4 million of cash and cash equivalents and the addition of $58.9 million of debt to acquire the capital stock of UCHC, and to eliminate the historical equity of UCHC and record excess cost over net assets acquired.

c. To establish an intangible asset for future profits associated with UCHC's unearned premium reserve and to eliminate historical UCHC deferred acquisition costs, resulting in a net reduction in excess cost over net assets acquired.

References to "deferred acquisition costs" with respect to UCHC pro forma adjustments refer to costs associated with the generation of insurance premiums and not acquisition costs of the Company to acquire UCHC capital stock:

d. To eliminate deferred income taxes previously recorded by UCHC.

e. To record financing fees in other assets in connection with obtaining a bank loan to fund a portion of the acquisition of UCHC capital stock and to transfer other acquisition costs to excess cost over net assets acquired.

f. To reflect unrealized losses on long-term bonds in UCHC's investment portfolio as of December 31, 1989.

g. To reflect United Capitol purchase of UCHC stock options from its employees in accordance with the terms of the Company's acquisition of UCHC.

h. To eliminate accrued compensation attributable to UCHC non-qualified stock options. All of these options were purchased by United Capitol on the date of the Company's acquisition of UCHC capital stock.

DISPOSITIONS OF INVESTMENTS IN ENTERPRISES

BAIRNCO CORPORATION, DECEMBER 31, 1989

Notes to Consolidated Financial Statements

(12) Subsequent Event

On January 22, 1990, the Board of Directors of Bairnco adopted a plan to spin off Keene Corporation as a stock dividend to Bairnco stockholders. The spin-off plan is subject to further Board action and receipt of required consents including the consent of lenders to Bairnco. This entity has not been reflected as a dividended operation in the accompanying financial statements of Bairnco as the required consents have not yet been obtained.

The following unaudited pro forma income statement presents (a) the condensed consolidated results of operations for Bairnco for the year ended December 31, 1989, (b) Keene's condensed results of operations for the year ended December 31, 1989, (c) a reclass related to the spin-off, and (d) Bairnco's condensed consolidated results of continuing operations excluding Keene (in thousands, except per share amounts):

	Bairnco as Reported	Keene	Other Adjustments	Bairnco Pro Forma
Net sales	$196,943	$17,191		$179,752
Gross profit	$ 58,213	$ 4,961	$1,525	$ 54,777
Selling, general & other expenses	55,714	6,891	1,525	50,348
Interest (income) expense, net	(9,358)	(9,846)		488
Income before taxes	11,857	7,916	—	3,941
Provision for income taxes	4,748	2,633		2,115
Income from continuing operations	$ 7,109	$ 5,283		$ 1,826
Earnings per share from continuing operations	$ 0.67	$ 0.50		$ 0.17

The following unaudited pro forma balance sheet presents (a) the condensed consolidated financial position of Bairnco as of December 31, 1989, (b) Keene's condensed financial position as of December 31, 1989, (c) reclasses and other adjustments which primarily relate to deferred tax assets that must be recognized by Bairnco upon the spin-off of Keene and the repayment of Bairnco's advance from Keene, and (d) Bairnco's condensed consolidated financial position as of December 31, 1989 on a pro forma basis as if the spin-off of Keene had occurred on such date (in thousands):

	Bairnco as Reported	Keene	Other Adjustments	Bairnco Pro Forma
Cash and cash equivalents	$162,244	$138,618	$ (974)	$ 22,652
Other current assets	67,380	9,948	(729)	56,703
Noncurrent assets	98,217	11,276	4,860	91,801
	$327,841	$159,842	$3,157	$171,156
Current debt	$ 52,101			$ 52,101
Other current liabilities	53,904	16,479	3,791	41,216
Long-term debt	3,465			3,465
Other liabilities	17,923	11,695	(634)	5,594
Total liabilities	127,393	28,174	3,157	102,376
Stockholders' investment	200,448	131,668		68,780
	$327,841	$159,842	$3,157	$171,156

BANCTEXAS GROUP, INC., DECEMBER 31, 1989

BancTEXAS Group, Inc.
Notes to Consolidated Financial Statements

Note 2. Current Regulatory Environment

On January 26, 1990, the Office of the Comptroller of the Currency (OCC) declared BancTEXAS Dallas N.A., a subsidiary of BTX, insolvent and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. On the same day, the FDIC approved the assumption of the deposits and secured liabilities of BancTEXAS Dallas by Hibernia National Bank in Texas (Hibernia). Pursuant to the actions of the OCC and the FDIC, Hibernia assumed about $340 million in deposits of BancTEXAS Dallas, and purchased approximately $343 million of BancTEXAS Dallas' assets from the FDIC. BTX did not receive any of the proceeds from such sale. The accompanying consolidated balance sheet as of December 31, 1989, reflects the disposition of BancTEXAS Dallas as of December 31, 1989. The net deficiency in assets of BancTEXAS Dallas as of that date has been reclassified to "deficiency in assets of former Bank Subsidiary" until such time as an estimate of the financial obligation, if any, of BTX or any of its Bank Subsidiaries related to the insolvency of BancTEXAS Dallas can be determined. The accompanying 1989 Consolidated Statement of Operations and Cash Flows has been prepared on the same basis as prior years and includes the results of operations and cash flows including BancTEXAS Dallas.

Note 17. Pro Forma Consolidated Condensed Statements of Operations (Unaudited)

Presented below is unaudited pro forma information after giving effect to the action taken by the OCC and the resulting insolvency and disposition of BancTEXAS Dallas on January 26, 1990. The pro forma amounts are based on the historical consolidated statements of operations adjusted to exclude the results of operations of BancTEXAS Dallas for the years ended December 31, 1989 and 1988, respectively.

	Year Ended December 31	
	1989	1988
	(In thousands, except per share data)	
Interest income	$29,177	$15,285
Interest expense	18,218	7,014
Net interest income	10,959	8,271
Provision for (reversal of) loan losses	(400)	(1,600)
Noninterest income	2,006	1,862
Noninterest expense	19,660	13,727
Net loss	$ (6,295)	$ (1,994)
Net loss per share	$ (0.37)	$ (0.12)
Average common shares outstanding	16,884	16,774

ENEX RESOURCES CORPORATION, DECEMBER 31, 1989

Enex Resources Corporation
Notes To Consolidated Financial Statements
For The Three Years Ended December 31, 1989

1. Summary of Significant Accounting Policies

General—The principal activities of Enex Resources Corporation (the "Company") since its inception in 1979, have been the marketing of Enex Oil & Gas Income Programs I, II, III, IV, the Enex Income and Retirement Fund, the Enex 88-89 Income and Retirement Fund, and a privately offered limited partnership, Enex Energy Partners 87, L.P. (collectively, the "Programs"). The Company, through December 31, 1989, has formed 45 limited partnerships under the Programs with aggregate capital subscriptions of $205.7 million (including $2.5 million contributed by the Company). In 1985, the 12 partnerships of Program I, having initial capital of $96.8 million, were

consolidated into a single partnership, Enex Program I Partners, L.P. ("Program I"). The partnerships in the Programs have acquired $180.9 million, at cost, of proved oil and gas properties in which the Company has a 10% interest as the general partner in addition to its proportional interest as a limited partner of approximately one to six percent. Accumulated depreciation, depletion, and amortization for such oil and gas properties at December 31, 1989 and 1988 was $98.5 million and $87.4 million, respectively.

In addition to partnership activities, the Company manages oil and gas producing properties for its own account. Effective July 1, 1986, the Company acquired oil and gas properties valued, together with other assets, at $25.2 million from BTU Operating Company ("BTU") in exchange for 3.3 million shares of the Company's common stock. The assets include interests in more than 400 producing wells in eleven states (primarily in Texas, New Mexico, and Oklahoma). Effective June 30, 1988, the capital stock issued to BTU in the transaction described above was sold by BTU to a wholly owned subsidiary of Energy Development Partners, Ltd. ("EDP"), a Colorado limited partnership listed on the American Stock Exchange. As a consequence of the sale, EDP owns approximately 68.64% of the Company's outstanding stock.

On February 12, 1990, the Company reached a definitive agreement with respect to a plan providing for the repurchase of the shares of the Company's outstanding stock owned beneficially by EDP (the "Repurchase"). Under the plan, the 68.64% of Enex stock owned beneficially by EDP will be repurchased by the Company in exchange for certain assets, including the Company's interests as a general and limited partner in Program I, Enex Oil & Gas Income Program II-1, Enex Oil & Gas Income Program II-2, Enex Oil & Gas Income Program II-3, Enex Oil & Gas Income Program II-4, Enex Oil & Gas Income Program II-5, Enex Oil & Gas Income Program II-6 (collectively, the "Subject Partnerships"), and certain of the oil and gas properties and other assets owned directly by the Company. Completion of the Repurchase is subject to certain conditions, including the approval of necessary proxy materials by the Securities and Exchange Commission (the "Commission") and the approval of the shareholders of the Company. EDP has agreed to vote its 68.64% of the Company's stock in favor of the Repurchase. Under the Company's Articles of Incorporation, a favorable vote by a majority-in-interest is required for approval of the Repurchase. It is expected that a shareholders' meeting will take place within 30 days after the Commission's approval of the proxy materials. Unaudited condensed pro forma financial statements as of and for the year ended December 31, 1989, that set apart the net assets to be transferred and the results of operations of such assets are presented in Note 14 (see subsequent event in Note 13).

13. Change in Control of the Company

On April 18, 1990, but effective March 31, 1990, the Company repurchased approximately 68.64% of its outstanding stock in exchange for the Company's interests as a general partner and limited partner in seven managed limited partnerships and certain other assets directly held by the Company. A more complete description of the assets transferred may be found in Note 1.

14. Unaudited Condensed Pro Forma Financial Statements

The unaudited condensed pro forma balance sheet on the following page sets apart the net assets to be transferred in exchange for approximately 68.64% of the Company's stock as discussed in Note 1 to this report, as if the Repurchase occurred on December 31, 1989 (see subsequent event in Note 13). The unaudited condensed pro forma statement of operations for the year ended December 31, 1989 sets apart the results of operations of such assets as if the Repurchase occurred on January 1, 1989.

Unaudited Condensed Pro Forma Balance Sheet
(In thousands)

	Historical December 31, 1989 (Audited)	Related to Net Assets Transferred
ASSETS		
Cash and certificates of deposit	$ 2,314	$ 320
Accounts receivable:		
Managed limited partnerships	1,488	792
Oil and gas sales	1,985	1,161
Joint owner	365	

	Historical December 31, 1989 (Audited)	Related to Net Assets Transferred
Notes receivable from managed limited partnerships	$ 498	$ 498
Property held for resale	1,233	
Prepaids and other current assets	113	36
Total current assets	7,996	2,807
Proved oil and gas property, net	12,326	9,398
Unproved mineral interests	814	814
Noncurrent receivable from partnerships and other	6,251	2,681
Total	$27,387	$15,700
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 1,957	$ 328
Long-term debt	204	204
Total liabilities	2,161	532
Stockholders' equity:		
Common stock	259	
Additional paid-in capital	29,586	
Retained earnings (deficit)	(3,162)	
Less cost of treasury stock	(1,457)	15,168
Total stockholders' equity	25,226	15,168
Total	$27,387	$15,700

	Pro Forma Adjustments	Notes	Pro Forma December 31, 1989
ASSETS			
Cash and certificates of deposit	$ 7,441	A	$ 5,612
	(3,823)	C	
Accounts receivable:			
Managed limited partnerships			696
Oil and gas sales			824
Joint owner			365
Property held for resale			1,233
Prepaids and other current assets			77
Total current assets	3,618		8,807
Proved oil and gas property, net	(1,481)	A	1,447
Noncurrent receivable from partnerships and other			3,570
Total	$ 2,137		$13,824
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			$ 1,629
Federal income taxes payable	$ 2,018	B	2,018
Total liabilities	2,018		3,647
Stockholders' equity:			
Common stock	(168)	D	91
Additional paid-in capital	(18,823)	D	10,763
Retained earnings (deficit)	5,960	A	780
	(2,018)	B	
Less cost of treasury stock	(3,823)	C	(1,457)
	18,991	D	
Total stockholders' equity	119		10,177
Total	$ 2,137		$13,824

Note A. To reflect the sale, effective January 1, 1990, of proved oil and gas properties for $7.4 million to a third party on which the Company realized approximately a $6.0 million gain (the "Sawyer Sale").

Note B. To reflect the Company's pro forma tax liability resulting from the Repurchase, including the tax impact of the Sawyer Sale described in Note (A) above.

Note C. To reflect the anticipated transfer of a portion of the proceeds from the Sawyer Sale, net of a portion of the pro forma tax liability described in Note (B) above, to EDP in accordance with the Repurchase Agreement.

Note D. To reflect cancellation of the 3,350,432 shares of stock to be required in the Repurchase.

Unaudited Condensed Pro Forma Statement of Operations (In thousands)

	Historical 1989 (Audited)	Related to Transferred Net Assets
REVENUES:		
Commissions and other fees from the sale of interests in managed limited partnerships	$ 821	
Oil and gas sales	7,389	$ 3,369
Gas plant sales	515	127
Total revenues	8,725	3,496
EXPENSES:		
General and administrative	3,035	136
Lease operating and other expenses	2,528	1,039
Gas purchases and plant operating expenses	429	93
Production taxes	475	228
Depreciation, depletion, and amortization	6,831	4,130
Total expenses	13,298	5,626
Income (loss) from operations	(4,573)	(2,130)
Other income (expense), net	(22)	(19)
Income (loss) before income taxes	(4,595)	(2,149)
Income tax (credit)	(369)	
Net income (loss)	$ (4,226)	$ (2,149)
Weighted average shares	4,886,726	
Net (loss) per share	$ (0.86)	

	Pro Forma Adjustments	Notes	Pro Forma 1989
REVENUES:			
Commissions and other fees from the sale of interests in managed limited partnerships			$ 821
Oil and gas sales	$ (672)	E	3,348
Gas plant sales			388
Total revenues	(672)		4,557
EXPENSES:			
General and administrative	(877)	F	2,022
Lease operating and other expenses	(323)	E	1,166
Gas purchases and plant operating expenses			336
Production taxes	(43)	E	204
Depreciation, depletion, and amortization	(139)	E	2,562
Total expenses	(1,382)		6,290
Income (loss) from operations	710		(1,733)
Other income (expense), net			(3)
Income (loss) before income taxes	710		(1,736)
Income tax (credit)			(369)
Net income (loss)	$ 710		$ (1,367)

	Pro Forma Adjustments	Notes	Pro Forma 1989
Weighted average shares			$1,536,294
Net (loss) per share			$(0.89)

Note E. To remove net 1989 operations related to properties included in the Sawyer Sale, as described in Note (A) to the Unaudited Condensed Pro Forma Balance Sheet.

Note F. To remove general and administrative expenses that are directly related to the proposed transaction, are expected to have a continuing impact on the Company, are factually supportable and would have been eliminated under the Company's plan to reduce such costs, without materially affecting operations. See additional discussion of the Company's plan to reduce overhead in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net (loss) per share is calculated based on the weighted average number of shares outstanding during the period, adjusted to give effect to the assumed transfer at January 1, 1989 of 3,350,432 shares owned beneficially by EDP.

MUSCOCHO EXPLORATIONS, LTD., DECEMBER 31, 1989

Muscocho Explorations, Ltd.
Notes to the Financial Statements
December 31, 1989 and 1988

3. Proposed Transaction With a Shareholder

Under the terms of an agreement entered into on December 28, 1989 and amended March 14, 1990, Echo Bay Mines, Ltd, the major shareholder in the Company, will acquire 50% of the Company's interest in the Magino and Magnacon Gold Mines and will become operator of the mines. Echo Bay will also acquire 50% of the Company's direct interests in exploration assets in the Magino and Magnacon areas and in the securities held by the Company in MacMillan Gold Corp. Echo Bay will provide a $2.0 million loan facility to the Company and will tender for cancellation its entire present holdings of 11,212,291 shares (34% fully diluted) in the Company. The agreement is subject to the necessary regulatory approvals, consents, and an independent fairness opinion. Completion of the transaction is anticipated to occur on or about April 30, 1990.

The $2.0 million loan facility provided under the agreement will be for a two-year term with interest calculated at prime rate plus 1%, and secured against the assets of the Company.

Should the loan not be repaid in full, the loan will automatically be exchanged on the basis of one percentage point of interest held by the Company in the assets subject to sale for each $200,000 of loan balances outstanding, to a maximum of 10% interest.

The following summary presents on a pro forma basis the financial position of the Company as if the contemplated April 30, 1990 transactions had occurred on December 31, 1989.

	As Reported	Pro Forma
	(Thousands of dollars)	
Current assets	$15,952	$ 9,864
Investments	8,755	7,910
Fixed assets	13,969	7,805
Mining properties	13,708	9,813
	$52,384	$35,392
LIABILITIES	$13,951	$ 8,451
Shareholders' equity	38,433	26,941
	$52,384	$35,392
Shareholders' equity per share	$ 1.23	$ 1.35

The outstanding number of shares on a pro-forma basis would be 19,921,586.

By amendment dated March 14, 1990, Echo Bay made available to the Company and its related companies an additional loan facility aggregating $5.0 million for a two-year term at prime rate plus 1% secured by the assets of the borrowing company. The amount available will be allocated at the discretion of Echo Bay and is to be used to pay creditors and retire bank borrowings.

Spectrum Control, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

19. Spectrum Polytronics, Inc.

Since its inception in November 1986, Polytronics has been a development stage company in the process of constructing manufacturing facilities needed to produce polymer multilayer ("PML") capacitors in commercial quantities. The PML capacitor, which is Polytronics' only product, represents a new technology developed by Polytronics. Polytronics has just begun to market the PML capacitor. Although Polytronics has not yet received any significant production orders, initial product sales are expected to occur in 1990.

At its originally planned operating level, Polytronics' financing needs were estimated to be $11 million over the next two fiscal years (1990–1991). The financing needs consisted of approximately $7 million for the purchase of capital equipment and expansion of facilities and approximately $4 million for continued research, development, and general operating needs. Polytronics is presently seeking financing through a private sale of its Common Stock. It is uncertain, however, whether Polytronics will be able to raise all or even a portion of the needed funds.

The uncertainty of raising the required capital in the private equity placement caused Polytronics to implement an alternative minimal operating plan in February 1990. This plan includes an 80% reduction in Polytronics' work force and limiting total capital expenditures through fiscal year 1990 to approximately $300,000, instead of the originally planned capital expenditures of $5 million in 1990. This planned reduction in aggregate capital expenditures severely limits the total available production capacity of Polytronics.

In August 1989, the Board of Directors of the Company approved the distribution of all the shares of Polytronics' common stock held by the Company (the "Distribution"). In connection with the Distribution, the Company will contribute to the capital of Polytronics the intercompany obligation due to the Company, which amounted to approximately $12.1 million at November 30, 1989. After the Distribution, Polytronics will no longer be a subsidiary of the Company. In addition, the Board of Directors approved an additional capital contribution to Polytronics of up to $4.5 million, which is intended to be paid in installments at such times and in such amounts as are needed to support Polytronics' cash requirements under its revised operating plan discussed above. In accordance with the terms of the commitment, if Polytronics receives an equity investment prior to the Company satisfying all of its $4.5 million capital pledge, any unpaid portion of the obligation will be cancelled, to the extent that such investment exceeds the unpaid portion. As of February 27, 1990, in connection with this commitment, the Company has contributed approximately $2.1 million to the capital of Polytronics.

The following summarizes the assets and liabilities of Polytronics included in the accompanying consolidated balance sheet at November 30, 1989:

Current assets	$ 6,000
Property, plant and equipment, at cost	11,983,000
Other assets	159,000
Total Assets	$12,148,000
Current liabilities	$ 7,618,000
Long-term debt	-0-
Total Liabilities	$ 7,618,000

Polytronics' current liabilities include $6,400,000 of industrial development authority notes which are currently in technical default (see Note 7). The Company has guaranteed this indebtedness.

Without additional equity financing or sufficient cash flow from operations, the recoverability in the normal course of business of Polytronics' property, plant, and equipment amounting to $11,983,000 is uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The following unaudited pro forma balance sheet information reflects the effects of the Distribution as if it had occurred on November 30, 1989. The pro forma adjustments include: reclassification of the intercompany obligations due to the Company from Polytronics as a contribution to Polytronics' capital; recognition as a current liability of the Company's remaining capital pledge to Polytronics;

and the Company's distribution to its shareholders of all of the Polytronics common stock held by the Company.

Unaudited Pro Forma Balance Sheet Information

	November 30, 1989 as Reported	Pro Forma Adjustments	Pro Forma
Current assets	$20,789,000	$ (6,000)	$20,783,000
Property, plant and equipment	34,445,000	(11,983,000)	22,462,000
Other assets	1,697,000	(159,000)	1,538,000
	$56,931,000	$(12,148,000)	$44,783,000
Current liabilities	$24,625,000	$ 2,490,000	$27,115,000
Other liabilities	15,642,000	1,617,000	17,259,000
Stockholders' equity	16,664,000	(16,255,000)	409,000
	$56,931,000	$(12,148,000)	$44,783,000

The unaudited pro forma balance sheet information has been prepared on the basis that $6,400,000 of Polytronics' industrial development authority notes will be reported as an obligation in the Company's financial statements as a result of the Company's guarantee of this debt.

TEXACO, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
Texaco, Inc. and Subsidiary Companies

Note 2. Restructuring

Subsequent Events. Sale of Texaco Canada, Inc.—On February 28, 1989, Texaco completed the sale of its interest in Texaco Canada, a fully integrated petroleum company that explores for and produces crude oil, natural gas liquids, and natural gas, and refines, transports, and markets crude oil and petroleum products in Canada. Texaco received approximately $3.24 billion in cash for its 78% interest. Excluded from the sale were a small number of former Texaco Canada properties that were transferred to a newly formed company, Texaco Canada Petroleum, Inc. (TCPI), whose shares were distributed pro rata to the current stockholders of Texaco Canada as a dividend. As a result, Texaco holds a 78% interest in TCPI. The properties transferred to TCPI were certain exploration interests in Brazil, Mauritania, Guinea-Bissau, and exploration and producing interests in Canada including Georges Bank. Texaco's interest in Texaco Canada is carried in Investments and Advances on the Consolidated Balance Sheet. For additional information, see Note 6, "Investments and Advances."

Prior to the consummation of the sale, Texaco Canada declared cash dividends to its existing stockholders. On February 1, 1989, a special cash dividend representing a payout of unremitted prior earnings was paid from which Texaco received $512 million. Subsequently, a regular first-quarter dividend, plus a special dividend, was paid from which Texaco received $59 million.

Distribution of Proceeds to Stockholders—On January 29, 1989, Texaco announced its intention to distribute to stockholders two special dividends with a total value of $8 per common share, or approximately $1.95 billion. The first special dividend will be $4 per common share in cash, expected to be paid in late June. The second special dividend will consist of $3 in cash per common share and $1 stated value of non-voting variable-rate cumulative preferred stock, per common share, expected to be paid 90 days later. Any preferred stock issued will be designed to trade at its stated value on a fully distributed basis. Both dividends are subject to approval by stockholders at the Company's May 1989 Annual Meeting. The Company also plans to repurchase, subject to market conditions, $500 million worth of its common stock prior to August 1990.

The following unaudited pro forma condensed consolidated balance sheet reflects the effect of the sale of Texaco Canada, the distributions to stockholders, and the common stock repurchase, as if these events had occurred as of December 31, 1988. The pro forma adjustments related to the sale of Texaco Canada reflect the partial utilization of the net cash received to reduce debt. The pro forma

adjustments related to the stockholder distributions and common stock repurchase reflect the payment of $7 in cash per share of common stock, the issuance of $1 stated value of non-voting variable-rate cumulative preferred stock per share of common stock, the common stock repurchase, and an additional deposit to the IRS under an agreement dated March 18, 1988. (See Note 18.) Although this unaudited pro forma balance sheet indicates the magnitude of these effects, it does not purport to be indicative of the actual financial position which may be attained in the future or which would actually have been attained had the transactions represented in the pro forma balance sheet occurred as of December 31, 1988.

As of December 31, 1988 (In millions of dollars)

	As Reported on Consolidated Balance Sheet
ASSETS	
Cash and cash equivalents	$ 1,390
Short-term investments	95
Accounts and notes receivable	3,615
Inventories	1,559
Other current assets	111
Total current assets	6,770
Investments and advances	5,239
Net properties, plant, and equipment	13,746
Deferred charges	582
Total	$26,337
LIABILITIES AND STOCKHOLDERS' EQUITY	
Notes payable and current portion of long-term debt	$ 1,267
Accounts payable, accrued interest, and other liabilities	2,792
Estimated income and other taxes	2,115
Total current liabilities	6,174
Long-term debt and capital lease obligations	6,655
Deferred income taxes	1,612
Deferred credits and other noncurrent liabilities	3,752
Minority interest in subsidiary companies	39
Stockholders' equity	8,105
Total	$26,337

	Effect of Sale of Texaco Canada, Inc.	Unaudited Effect of Stockholder Distributions and Common Stock Repurchase	Pro Forma
ASSETS			
Cash and cash equivalents	$2,635	$(2,635)	$ 1,390
Short-term investments	—	—	95
Accounts and notes receivable	—	—	3,615
Inventories	—	—	1,559
Other current assets	—	—	111
Total current assets	2,635	(2,635)	6,770
Investments and advances	(1,719)	—	3,520
Net properties, plant, and equipment	—	—	13,746
Deferred charges	—	—	582
Total	$ 916	$(2,635)	$24,618
LIABILITIES AND STOCKHOLDERS' EQUITY			
Notes payable and current portion of long-term debt	$ —	$ —	$ 1,267

	Effect of Sale of Texaco Canada, Inc.	Unaudited Effect of Stockholder Distributions and Common Stock Repurchase	Pro Forma
Accounts payable, accrued interest and other liabilities	$ —	$ —	$ 2,792
Estimated income and other taxes	649	(388)	2,376
Total current liabilities	649	(388)	6,435
Long-term debt and capital lease obligations	(1,063)	—	5,592
Deferred income taxes	—	—	1,612
Deferred credits and other noncurrent liabilities	—	(37)	3,715
Minority interest in subsidiary companies	—	—	39
Stockholders' equity	1,330	(2,210)	7,225
Total	$ 916	$(2,635)	$24,618

Note 18. Contingent Liabilities

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Internal Revenue Service Claim

In the course of negotiations held during the Company's Chapter 11 proceedings, the IRS advised the Company that it was considering filing a claim against the Company for a maximum amount of $6.5 billion consisting of disputed tax claims and interest for certain open tax years. Based upon the Company's review of the disputed tax claims, and taking into account settlement discussions held with the IRS before, during, and after the Chapter 11 proceedings on various claims, the Company believes that the amount due and owing will be substantially less than the $6.5 billion.

The tax years in question involve refunds or liabilities for income tax and windfall profit tax applicable to Texaco, Inc. and Getty. Currently, the Company is under examination by the IRS for the eight years from 1979 to 1986 and is involved in finalizing protested tax issues with the IRS for certain earlier tax years dating back to 1972. These amounts do not reflect liabilities, if any, of Texaco for income or windfall profit taxes for tax years 1983 through 1986, which currently are at varying stages of the audit process.

On March 18, 1988, Texaco, Inc. and the IRS entered into an agreement to provide a framework for an orderly resolution of all open IRS tax disputes in accordance with established administrative and judicial procedures. Under the agreement with the IRS, Texaco agreed to make cash deposits against disputed tax claims totaling $1 billion over a four-year period: $200 million was paid on April 7, 1988; $200 million was prepaid on February 3, 1989; and the remaining three installments of $200 million each will be due at twelve-month intervals commencing April 7, 1990. These deposits may be applied by Texaco against tax claims that may ultimately be agreed upon or determined and will prevent further interest from accruing on these claims. Texaco has also agreed to make additional cash deposits under certain circumstances, such as when certain distributions to stockholders exceed net income, adjusted for unusual gains or losses. Any excess after such tax claims have been resolved would be returned to the Company under established IRS procedures.

V

PRO FORMA STATEMENTS PRESENTED IN NOTES TO THE HISTORICAL STATEMENTS—EVENTS OTHER THAN THE ACQUISITION OR DISPOSITION BY THE REPORTING ENTERPRISE OF AN INVESTMENT IN AN ENTERPRISE

Some companies in NAARS have presented pro forma financial statements reflecting subsequent events in the notes to the historical financial statements. As discussed in chapter 4, such an event is commonly the acquisition or disposition by the reporting enterprise of an investment in an enterprise. Other kinds of subsequent events are reflected too.

Eleven examples are presented below of pro forma statements presented in notes to the historical statements. All the examples reflect subsequent events other than the acquisition or disposition by the reporting enterprise of an investment in an enterprise. In two examples, American Medical International, Inc. and Southern Union Company, the pro forma statements are for an enterprise that acquires the reporting enterprise after its latest balance sheet date.

The remaining nine examples of pro forma statements, which are for the reporting enterprise, refer to these kinds of subsequent events:

- Issuance of capital stock in the reporting enterprise to redeem debt
- Issuance of capital stock in the reporting enterprise in exchange for services
- Sale of capital stock in the reporting enterprise
- Redemption of capital stock in the reporting enterprise
- Repayment of debt
- Replacement of old debt with new debt
- Loan of money to the reporting enterprise
- Sacrifice of investment securities owned to extinguish debt
- Sale of investment securities
- Collection of a receivable
- Payment of dividends
- Loss of control of a subsidiary

Most of the examples refer to more than one kind of event.

In seven examples, a pro forma balance sheet was presented without a pro forma income statement. In three examples, both a pro forma balance sheet and a pro forma income statement were presented. In one example, a pro forma income statement was presented without a pro forma balance sheet.

American Medical International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

13. Subsequent Event (Unaudited)

The Company entered into an Agreement and Plan of Merger, dated as of July 6, 1989 and amended as of October 7, 1989 (as amended, the "Merger Agreement"), among the Company, IMA Holdings Corp., a Delaware corporation ("Holdings"), and IMA Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Holdings ("Acquisition"). The Merger Agreement provides for the merger (the "Merger") of Acquisition with and into the Company, with the Company to be the surviving corporation in the Merger. Within 30 days after the consummation of the Merger, the Company will be merged with Amigo Holdings Corp., a Delaware corporation and a wholly owned direct subsidiary of Holdings ("Amigo"), with either the Company or Amigo surviving (the "Second Merger") (as such surviving corporation, the "Surviving Corporation").

The Merger is the second and final step in the acquisition of the Company pursuant to the terms of the Merger Agreement. The first step was a tender offer (the "Tender Offer") in which Acquisition offered to purchase up to 63,000,000 of the shares of AMI's common stock, par value $1.00 per share (the "Shares"), outstanding as of the consummation of the Tender Offer at $26.50 per share in cash. Pursuant to the Tender Offer, Acquisition purchased 63,000,000 shares, representing approximately 86% of the then outstanding Shares, including Shares issuable upon conversion of convertible debentures. The Tender Offer, the Merger, and the Second Merger together with the transactions contemplated thereby are hereinafter sometimes collectively referred to as the "Transaction."

As a result of the Merger, each Share then issued and outstanding (other than Shares held by Holdings, the Company or their respective subsidiaries) will be converted into the right to receive directly from Holdings a pro rata share of common stock, par value $0.01 per share, of Holdings ("Holdings Common Stock"), which in the aggregate (including shares reserved for issuance to holders of convertible debentures) will be equal to 20% of the Holdings Common Stock to be outstanding immediately after the effective time of the Merger.

The amount of funds required by Acquisition to purchase all Shares to be purchased pursuant to the Tender Offer was approximately $1.670 billion. Holdings or Acquisition will also require approximately $595 million to make payments in respect of employee stock options, refinance certain existing indebtedness of the Company and its subsidiaries and pay fees and expenses to be incurred in connection with the completion of the Transaction.

The funds required by Holdings and its Subsidiaries to purchase all Shares purchased pursuant to the Tender Offer and to otherwise consummate the Transaction have been and will be furnished from: (a) the proceeds of the sale to Harry Gray; Mel Klein & Partners, L.P.; First Boston Investments, Inc.; and certain other parties of Holdings Common Stock for an aggregate of $285 million; (b) the proceeds of a sale of subordinated debt securities of Amigo in the aggregate amount of approximately $600 million; and (c) the proceeds of loans from senior lenders, including Chemical Bank, as agent, in the aggregate amount of approximately $1.30 billion.

The following unaudited pro forma condensed consolidated statements of operations of Holdings and its subsidiaries (including the Company) for the year ended August 31, 1989 have been prepared giving effect to the Transaction as if the Transaction had occurred as of September 1, 1988. The unaudited pro forma condensed consolidated balance sheet of Holdings and its subsidiaries (including the Company) at August 31, 1989 has been prepared giving effect to the Transaction as if the Transaction had occurred on such date. The pro forma statements of operations and balance sheet of the Company would be the same as those of Holdings except for changes resulting from the sale by the Company at the effective time of the Merger of certain hospitals to New H Holdings Corp., a subsidiary of Holdings ("New H") for $340 million in cash and a $110 million subordinated promissory note of New H. With respect to the Company, the sale to New H will have the effect of reducing operating results and property and equipment, net, and decreasing by $315 million the amount of long-term debt.

	Unaudited Pro Forma Information Holdings Consolidated
	(Dollars in thousands)
Operating Results:	
NET REVENUES	$2,750,202
Operating costs and expenses	3,041,823
Net loss	$ (195,921)

	Unaudited Pro Forma Information Holdings Consolidated
	(Dollars in thousands)
Balance Sheet Data:	
CURRENT ASSETS	$ 403,878
Unallocated excess of purchase cost over net assets acquired	1,258,691
Property and equipment, net	2,133,357
Other non-current assets	514,485
	$ 4,310,411
CURRENT LIABILITIES	$ 457,805
Long-term debt	3,032,802
Other liabilities and minority equity interest in subsidiaries	483,554
Shareholders' equity	336,250
	$ 4,310,411

The pro forma financial information set forth above includes the following significant assumptions:

The Transaction will be accounted for under the purchase method of accounting and, therefore, the allocation of the purchase cost to assets and liabilities will be required to reflect fair values. The total purchase cost of the Transaction is estimated to be $1.874 billion and the excess of the purchase cost over the carrying value of net assets acquired is estimated to be $1.259 billion.

Management of Holdings believes that a significant portion of the unallocated excess of the purchase cost over net assets acquired will ultimately be allocated to property and equipment. Such allocations will be based upon valuations and other studies which have not yet been prepared. The pro forma operating results reflect amortization over 25 years, an approximate average of the expected asset lives for property and equipment and the amortization period for goodwill.

Interest expense, which is included in operating costs and expenses in the pro forma operating results, includes an adjustment for interest expense on approximately $1.903 billion of new debt reduced by that portion of existing debt which would have been retired or will be refinanced through consummation of the Transaction and an adjustment for amortization of deferred financing costs on the new debt.

The unaudited pro forma information does not purport to be indicative of the results that actually would have been obtained if the Transaction had occurred at the beginning of the year and is not intended to be a projection of future results.

BAYLY CORP., OCTOBER 31, 1989

Bayly Corp. and Subsidiaries
Notes to Consolidated Financial Statements
October 31, 1989, 1988, and 1987

(16) Subsequent Events

The Company completed a refinancing effective January 5, 1990. The refinancing consists of three primary transactions:

1. The exchange of $10,000,000 of Senior Notes for $10,000,000 of Series A Cumulative Preferred Stock (''Preferred A'');

2. The exchange of $5,000,000 of notes payable to a major shareholder (of which $3,150,000 was outstanding at October 31, 1989) for $5,000,000 of Series B Cumulative Preferred Stock (''Preferred B''), and;

3. Replacement of the previous working capital facility with an increased (up to $20 million) three-year revolving factoring/financing loan from BNY Financial Corporation (''BNY'').

The pro forma effect of the refinancing on the Company's October 31, 1989 condensed consolidated balance sheet (dollars in thousands) is as follows:

	October 31, 1989	Pro Forma Adjustments	Pro Forma October 31, 1989
ASSETS			
Current assets	$27,534		$27,534
Property and equipment, net	3,875		3,875
Other assets	1,166	235	1,401
Total assets	$32,575	$ 235	$32,810
LIABILITIES AND STOCKHOLDERS' EQUITY (Deficit)			
Current liabilities	$16,129	$ (965)	$15,164
Notes payable to related party	3,150	(3,150)	—
Long-term debt due after one year	19,110	(10,000)	9,110
Stockholders' equity (deficit)	(5,814)	14,350	8,536
Total liabilities and stockholders' equity (deficit)	$32,575	$ 235	$32,810

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In conjunction with the conversion of $10 million of Senior Notes to Preferred A, the warrants previously held by the Senior Note holders were modified to extend the date of exercise to June 1994. The $3.00 per share exercise price was not changed. An additional 65,000 warrants were issued to the Senior Note holders with the same exercise rights.

BIOSEARCH MEDICAL PRODUCTS, INC., DECEMBER 31, 1989

Biosearch Medical Products, Inc.
Notes to Consolidated Financial Statements

19. Subsequent Events (unaudited)

On January 22, 1990, the Company was denied an exception to the NASDAQ Capital and Surplus requirement of $375,000 and was delisted from the NASDAQ System. However, the Company was informed that should the Company's Form 10-K for the year ended December 31, 1989 reflect net worth of at least $375,000 and total assets of at least $750,000, albeit on a pro forma balance sheet, then the Company shall be able to re-list its securities.

During March 1990, the following transactions occurred: (a) the conversion of $2,080,000 of 10% U.S. Denominated Subordinated Notes due August 2, 1992 to 1,040,000 shares of common stock of the Company and $1,040,000 10% notes due April 1, 1992 for a $35,000 fee plus warrants for the purchase of 208,000 shares of common stock at a price 15% above mean bid/asked for ten days previous to this closing ($0.60 per share). (b) The conversion of a $100,000 12% Subordinated Note due February 27, 1991, into common stock of the Company at $1.00 per share for a $4,000 fee plus warrants to purchase 50,000 shares of common stock at a price of $0.625 per share. (c) In March 1990 these warrants were exercised and cash of $31,250 was received.

The effects of the above conversions on the December 31, 1989 consolidated balance sheet on a pro forma basis as if the transactions occurred at December 31, 1989 would be as follows:

	Historical December 31, 1989	Adjustments	Pro Forma
Current assets	$4,971,031	$ (35,000)(a) (4,000)(b) 31,250 (c)	$4,963,281
Property, plant, and equipment, net	3,273,413		3,273,413
Other assets	416,477		416,477
Total Assets	$8,660,921	$(7,750)	$8,653,171

	Historical December 31, 1989	Adjustments	Pro Forma
Current liabilities	$3,744,021		$3,744,021
Deferred revenues	822,444		822,444
Long-term debt	4,695,454	1,040,000 (a) (2,080,000)(a) (100,000)(b)	3,555,454
TOTAL LIABILITIES	9,261,919	(1,140,000)	8,121,919
Shareholders' equity (deficiency)	(600,998)	1,040,000 (a) (39,000)(a,b) 100,000 (b) 31,250 (c)	531,252
Total shareholders' equity (deficiency)	(600,998)	1,132,250	531,252
Total liabilities and shareholders' equity (deficiency)	$8,660,921	$ (7,750)	$8,653,171

CEL-SCI CORPORATION, SEPTEMBER 30, 1989

Cel-Sci Corporation
Notes to Financial Statements
Years Ended September 30, 1989, 1988, and 1987

I. Subsequent Events

On December 29, 1989, 1,000,000 restricted shares were sold to a related party for $250,000. Subsequent to September 30, 1989, an officer loaned to the Company $143,500. In December 1989, the Board of Directors approved the issuance of 660,084 shares of restricted common stock in exchange for this loan, other accrued expenses of $13,302 and services rendered subsequent to September 30, 1989, aggregating $8,219.

The following pro forma balance sheet reflects only the above mentioned transactions as if they had occurred as of September 30, 1989.

	September 30, 1989		
	Actual	Adjustment	Pro Forma
Current assets	$ 95,936	n1 $250,000 n2 143,500	$ 489,436
Other assets	357,432		357,432
	$ 453,368	$393,500	$ 846,868
Current liabilities	$ 457,150	n2 $ (13,302)	$ 443,848
Stockholders' equity (Deficiency in assets):			
Common stock	$ 29,927	n1 $1,000 n2 660	$ 31,587
Additional paid-in capital	9,493,776	n1 249,000 n2 164,361	9,907,137
Deficit	(9,527,485)	n2 (8,219)	(9,535,704)
Total stockholders' equity (Deficiency in assets)	(3,782)	406,802	$ (3,782)
	$ 453,368	$393,500	$ 846,868

n1. Sale of 1,000,000 shares of common stock for $250,000.

n2. Conversion of $143,500 in loans, $13,302 in accrued expenses, and $8,219 in services rendered subsequent to September 30, 1989 for 660,084 shares of common stock.

Consolidated Rail Corporation
Notes to Consolidated Financial Statements

2. Subsequent Event: 1990 Financial Restructuring

On January 17, 1990, the Board of Directors approved a financial restructuring plan which includes a Dutch auction tender offer of approximately $1 billion for the purchase of outstanding Company common stock, the establishment of an Employee Stock Ownership Plan of approximately $300 million for non-union employees ("Non-union ESOP"), and a related open market common stock purchase program. A maximum of $1.3 billion was authorized for common stock purchases under the tender offer and open market purchase programs.

The tender offer and open market common stock purchase program will be financed by $900 million of additional debt, which is ultimately expected to be intermediate and long-term debt, and the use of approximately $410 million of available Company funds, including an estimated $10 million for costs of the transactions. The Non-union ESOP will involve the issuance of convertible preferred stock by the Company in exchange for a note receivable from the Non-union ESOP.

Pursuant to the tender offer, which expired at midnight on February 14, 1990, the Company acquired 22.34 million shares of its 67.14 million outstanding common shares, or 33.3%, at a price of $49 per share, or an aggregate amount of $1.095 billion.

The following unaudited pro forma condensed consolidated income statement for the year ended December 31, 1989, and balance sheet as of December 31, 1989 reflect the effects of the purchase of common stock under the tender offer and the assumed purchase of common stock under the open market program (estimated at $200 million), both at $49 per share, the effects of borrowing $900 million at an assumed interest rate of 8.56%, the issuance of preferred stock that will be convertible into an equal number of shares of common stock, and the payment of preferred dividends at an assumed 7% rate. The condensed pro forma income statement assumes that the transactions had occurred at the beginning of 1989, while the condensed pro forma balance sheet assumes the transactions had occurred at the end of 1989.

	1989 Actual	1989 Pro Forma (Unaudited)
	(In millions except share data)	
Condensed Income Statements		
Revenues	$3,411	$ 3,411
Operating expenses (before special charge)	(2,979)	(2,979)
Special charge (Note 3)	(234)	(234)
Income from operations	198	198
Interest expense	(82)	(142)
Other income, net	117	80
Income before income taxes	233	136
Income taxes	85	49
Net income	$ 148	$ 87
Net income per common share:		
Primary	$ 2.17	$ 1.77
Fully diluted		$ 1.68
Average number of common shares outstanding (thousands)		
Primary	68,230	41,700
Fully diluted		46,409
Condensed Balance Sheets		
ASSETS		
Current assets	$1,230	$ 820
Property and equipment, net	5,980	5,980
Other assets	261	261
Total assets	$7,471	$ 7,061

	1989 Actual	1989 Pro Forma (Unaudited)
	(In millions except share data)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 1,077	$ 1,077
Long-term debt and other liabilities	2,350	3,250
Stockholders' equity	4,044	2,734
Total liabilities and stockholders' equity	$ 7,471	$ 7,061
Total number of common shares outstanding (thousands)	67,136	40,605

COOPER DEVELOPMENT COMPANY, OCTOBER 31, 1989

Cooper Development Company and Subsidiaries
Notes to Consolidated Financial Statements

Note 3. Transactions With The Cooper Companies, Inc.

The Chairman of the Board and President of the Company was also Chairman of the Board of TCC until July 12, 1988 and President and a director of TCC until October 21, 1988. During fiscal 1987 and for a part of fiscal 1988, certain former officers and directors of the Company were also officers and directors of TCC.

Under the terms of the November 27, 1989 Settlement Agreement, the $14,500,000 note payable to TCC, accrued and unpaid interest thereon of approximately $945,000, and the $1,050,000 (net of $57,000 previously paid) October 21, 1988 Settlement Agreement indebtedness to TCC, for a total of $16,495,000 as of October 31, 1989, were satisfied by the transfer to TCC of 412,378 shares of TCC Preferred Stock together with all the rights to dividends which accrued on such shares after June 30, 1989, which the Company estimated to be the equivalent of 17,526 shares of TCC Preferred Stock as of October 31, 1989. As a result, the Company recognized as of October 31, 1989, a settlement loss on the transaction of approximately $9,299,000 (which is the difference between the carrying amount of the obligations and the $60 carrying value of the related TCC Preferred Stock) and additional interest expense. Total interest expense recorded by the Company on amounts owed TCC was $1,691,000 for the year ended October 31, 1989.

Note 4. Transactions With Cooper Life Sciences, Inc.

The Chairman of the Board of Directors and President of the Company was also the Chairman of the Board and President of CLS until he resigned from both positions on September 28, 1989. The Vice President, Treasurer, and Controller of the Company was also Vice President, Treasurer, and Controller of CLS until he resigned on September 28, 1989. During fiscal 1987 and for a part of fiscal 1988, certain former officers and directors of the Company were also officers and directors of CLS.

During fiscal 1988, the Company sold an aggregate of 295,970 shares of TCC Preferred Stock at $77.32 per share to CLS for $22,884,000 under stock purchase agreements dated June 14, 1988 and October 27, 1988, as amended on November 18, 1988, February 28, 1989, and June 30, 1989 (the "Stock Purchase Agreements"). In addition, CLS paid the Company $77,320 to cover accrued but unpaid dividends on the shares of TCC Preferred Stock sold to CLS, 195,970 of such shares and related accrued dividends were held as of October 31, 1989 and 1988 by TCC as collateral to secure $14,500,000 of indebtedness of the Company to TCC (see Notes 2 and 22).

Pursuant to the Stock Purchase Agreements the Company was required to indemnify CLS against any loss resulting from a decline in the value of the TCC Preferred Stock from the per share purchase price (adjusted to reflect stock splits, recapitalizations or reorganizations but not stock dividends) through December 31, 1989. After December 31, 1989, any change in the value of the

TCC Preferred Stock would be for the account of CLS. On November 27, 1989, the Company and CLS agreed to settle the indemnity obligation by the transfer from the Company to CLS of 133,825 shares of the TCC Preferred Stock (see Note 22).

In July 1988, the Company entered into an Administrative Services Agreement with CLS pursuant to the terms of the which the Company has provided certain administrative services to CLS, including treasury, data processing, corporate benefits, risk management, corporate development, investor relations and accounting services. CLS terminated the Administrative Services Agreement on October 2, 1989 without giving the Company the three-months' prior notice required under such agreement. Pursuant to the Settlement Agreement entered into by the Company with CLS on November 27, 1989, the Company and CLS agreed that, except for CLS' obligation to pay amounts owed by it to the Company under the Administrative Services Agreement through December 31, 1989 (which amounts will be verified by CLS during the 90-day period ending February 25, 1990), the Administrative Services Agreement was terminated in all respects, and neither party had any further obligation to the other thereunder. During fiscal 1989 and 1988, CLS was charged $1,200,000 and $300,000, respectively, for such services at the rate of $100,000 per month. The Company has recorded these amounts as a reduction of selling, general and administrative expense.

On August 30, 1988, the Company borrowed $200,000 from CLS at 12% interest. The loan was repaid on September 1, 1988 with $133 interest. On September 27, 1988, the Company borrowed $3,000,000 from CLS at 12% interest. The loan was repaid on October 27, 1988 with $31,000 interest. During fiscal 1989, the Company borrowed a total of $3,700,000 from CLS with interest at the prime rate plus 2%. This amount and related accrued interest payable of $135,000 at October 31, 1989 were repaid on November 27, 1989 (see Note 22).

Note 22. Subsequent Events

Settlement Agreement With TCC. On November 27, 1989, the Company and TCC entered into a Settlement Agreement (the "November 27, 1989 Settlement Agreement") in order to resolve all major differences and disputes between the two companies. In general, the November 27, 1989 Settlement Agreement provides for, among other things, settlement of all intercorporate indebtedness, registration of the TCC Preferred Stock, resolution of a number of lawsuits, and agreements with respect to future activities and claims and relationships between the two companies. Although the various terms of the November 27, 1989 Settlement Agreement were implemented subsequent to October 31, 1989, the Company has, where appropriate, reflected the effect of such terms in its 1989 consolidated financial statements. The detailed provisions of the November 27, 1989 Settlement Agreement and the effect on the 1989 consolidated financial statements are as follows:

Intercorporate indebtedness totalling $16,495,000 at October 31, 1989 and consisting of a note and related interest payable arising from a Revolving Credit Agreement and indebtedness incurred pursuant to the October 21, 1988 Settlement Agreement was satisfied by the transfer to TCC of 412,378 shares of the TCC Preferred Stock owned by the Company, together with all rights to dividends which accrued on such shares after June 30, 1989 (which the Company estimated to be the equivalent of 17,526 shares of TCC Preferred Stock as of October 31, 1989). The $1,325,000 receivable due from TCC pursuant to the Stipulation and Agreement of Partial Settlement and the Company's obligation to TCC related to the ophthalmic assets of Difa were settled for a net payment to the Company of $932,000. TCC purchased for $1,000,000 an additional 25,000 shares of the TCC Preferred Stock owned by the Company, together with all rights to dividends which accrued on such shares after June 30, 1989 (which the Company estimated to be the equivalent of 1,063 shares of TCC Preferred Stock as of October 31, 1989). In preparing its financial statements for fiscal 1989, the Company has segregated its assets and liabilities subject to the settlement agreement in its consolidated balance sheet and has recorded a net loss on settlement of $8,509,000 to adjust such assets and liabilities at October 31, 1989 to the settlement values implicit in the November 27, 1989 Settlement Agreement. As part of the November 27, 1989 Settlement Agreement, TCC delivered to the Company its remaining shares of TCC Preferred Stock free of all liens or encumbrances previously imposed by TCC. Pursuant to a separate provision to the November 27, 1989 Settlement Agreement, the Company was required to set aside $800,000 and 31,000 shares of the TCC Preferred Stock into an escrow account to cover an environmental indemnity obligation (see below).

The Company and TCC reaffirmed their respective obligations contained in the October 21, 1988 Settlement Agreement regarding the registration of TCC Preferred Stock. At the request of the holders of a majority interest of the TCC Preferred Stock, TCC has agreed to use its reasonable efforts promptly to list the TCC Preferred Stock on the New York Stock Exchange or, if unsuccessful in such efforts, on the American Stock Exchange or the NASDAQ National Marketing System. The cost of such listing is to be borne by TCC. TCC also agreed to file an amendment to the registration statement on Form S-3 filed by TCC in March 1989 or a new registration statement to register the TCC Preferred Stock and to use reasonable efforts to keep such registration statement effective for 18 months or until the TCC Preferred Stock covered thereunder has been sold. The Company agreed to receive all future dividends at $12 per share per year and waived its rights to receive dividends at a higher rate pending the filing of an effective registration statement covering the shares. TCC agreed that the Company is no longer obligated to dispose of its remaining shares of TCC Preferred Stock.

Both the Company and TCC agreed to mutual standstill arrangements through November 1994 with respect to certain actions directed at increasing the ownership or other means of controlling or exerting influence over the affairs of the other. Specifically, each company agreed not to increase its ownership interest in the other, and not to initiate, encourage or support any activities or proposals which affect corporate governance matters unless such activities or proposals are supported by the affected company's Board of Directors, and to vote for and only for nominees to the Board of Directors and to support proposals that are proposed by or supported by the company's Board of Directors. Pursuant to these agreements, the Company has given to the Co-chairmen of the TCC Board of Directors an irrevocable proxy to vote the Company's remaining shares of TCC Preferred Stock through 1994 on a request for approval of any transaction involving (i) a merger, consolidation, or sale of all or substantially all of the assets of TCC and (ii) a sale of all or any part of TCC's contact lens business.

The Company and TCC each reaffirmed their respective insurance and indemnity obligations to the other. In that regard, the Company agreed to place $800,000 and 31,000 shares of TCC Preferred Stock in an escrow account to be used as needed to pay for the cost of environmental cleanup of certain real property sold by the Company to CTI in 1986. The Company may redeem the TCC Preferred Stock from the escrow at any time before it is sold to a third party by exchanging each share for $40 in cash. Any assets remaining in the escrow when the cleanup is completed in compliance with applicable law will be returned to the Company. Although placement of funds and TCC Preferred Stock into escrow does not limit the Company's responsibility, management believes that a sufficient amount has been recorded as of October 31, 1989 to satisfy its obligation. In this regard, the Company during fiscal 1989 reassessed the recorded liability in relation to revised estimates received from an independent consultant and recognized an additional expense of $2,448,000, which is included in other income (expense), net for fiscal 1989.

The Company and TCC both agreed to dismiss, with prejudice, substantially all litigation initiated by each against the other. Both companies also agreed, subject to limited exceptions, not to initiate or encourage or participate in legal actions against the other.

The Company irrevocably consented to TCC's sale of its contact lens business, and TCC agreed to negotiate exclusively with the Company and CLS for a period of 90 days with respect to such a sale. Finally, the Company accepted $7,576,000 in full satisfaction of any severance rights or other claims against TCC obtained by assignment from the Company's Chairman of the Board and President (see Note 5).

Settlement Agreement With CLS. On November 27, 1989, the Company and CLS entered into a Settlement Agreement (the "CLS Settlement Agreement") in order to resolve certain outstanding issues between the companies. Although various terms of the CLS Settlement Agreement were implemented subsequent to October 31, 1989, the Company has, where appropriate, reflected the effect of such terms in its 1989 consolidated financial statements. The detailed provisions of the CLS Settlement Agreement and the effect on the 1989 consolidated financial statements are as follows:

Pursuant to the Stock Purchase Agreements with CLS, the Company was obligated to indemnify CLS through December 31, 1989 against a decline from $77.32 per share in the value of 295,970 shares of TCC Preferred Stock sold by the Company to CLS during fiscal 1988. At October 31, 1988, the Company's investment in TCC Preferred Stock was reduced by $5,126,000 to reflect the decline in estimated value of these shares from the $77.32 sales price to $60 per share.

As part of the CLS Settlement Agreement, the Company agreed to transfer 132,500 shares of TCC Preferred Stock plus accrued dividends from October 1, 1989 (a total of 133,825 shares) to CLS in full satisfaction of its indemnity obligations. Included in settlement loss in the consolidated statement of operations for the year ended October 31, 1989 is an additional $2,903,000 representing the

difference between the $60 per share carrying value of the shares transferred and the $5,126,000 valuation adjustment recorded in fiscal 1988 with respect to the CLS indemnity.

The shares transferred to CLS are included in the current assets subject to settlement agreements with a corresponding liability to CLS in current liabilities subject to settlement agreements in the consolidated balance sheet at October 31, 1989. Also included in current liabilities subject to settlement agreements are the $3,700,000 in notes payable to CLS and related accrued interest of $135,000 through October 31, 1989, all of which were paid on November 27, 1989.

The Company and CLS also agreed, subject to verification of applicable documentation, that the total cost of the proxy contest pursued jointly with the Committee (see Note 4) was approximately $1,612,000 and the Company's share of those costs was $1,187,000. CLS agreed to pay its $425,000 share of the proxy costs and other amounts owing to the Company totalling approximately $270,000 as of October 31, 1989, subject to verification and adjustment through February 25, 1989, and the Company assigned its right to negotiate with TCC for the purchase of TCC's contact lens business to CLS for a period not to exceed 90 days.

Pro Forma Condensed Consolidated Balance Sheet

As discussed above, the assets and liabilities affected by the settlement agreements with TCC and CLS on November 27, 1989 have been segregated and adjusted to settlement values in the consolidated financial statements for fiscal 1989. The pro forma condensed consolidated balance sheet that follows presents the Company's assets and liabilities as if these settlement agreements had occurred on October 31, 1989.

Pro Forma Condensed Consolidated Balance Sheet

(In thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 7,183
Restricted cash	800
TCC preferred stock	5,362
Other current assets	6,695
Total current assets	20,040
Intangible assets, net	10,886
Other	4,861
	$35,787
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accrued expenses	$ 7,593
Other current liabilities	3,497
Total current liabilities	11,090
Long term liabilities	8,775
Total liabilities	19,865
Total stockholders' equity	15,922
	$35,787

THE DIANA CORPORATION, MARCH 31, 1990

The DIANA Corporation and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 20—Business Condition of Farm House (Unaudited)

Farm House has defaulted on principal and/or interest payments due on $6,625,000 of subordinated capital notes that were due in July 1989, $4,679,000 of subordinated capital notes that were due in November 1989, and $9,864,000 of senior subordinated debentures due in 1997. Farm House management is currently involved in negotiations with trustees representing the holders of the debt to develop a plan to present to the holders of the debt, but has not yet reached a final agreement on a plan. Farm House's continued existence is dependent upon its ability to restructure the debt and

to attain satisfactory levels of future cash flows to Farm House from profitable operations of its subsidiaries. Farm House's subsidiaries, principally RCOA, have not been profitable for the past two years. Farm House's ability to consummate a restructuring of its debt in default and RCOA's ability to attain profitable operations are uncertain.

The resolution of Farm House's financial problems may result in Diana losing its controlling financial interest in Farm House or having restrictions on its ability to control Farm House and its subsidiaries. The consolidated financial statements do not include adjustments, if any, that may be required if Diana loses its controlling interest in Farm House.

The following are pro forma condensed consolidated financial statements of Diana as of March 31, 1990, and for the year then ended assuming: (1) Diana no longer consolidates Farm House and its subsidiaries; (2) the holders of the debt of Farm House and its subsidiaries have no recourse to Diana for payment of principal and interest; and (3) Diana purchased Farm House's 81.25% ownership in Entree effective April 2, 1989:

Condensed Consolidated Balance Sheet

Current assets	$47,235,000
Property and equipment, net	3,130,000
Other assets	2,460,000
	$52,825,000
Current liabilities	$17,434,000
Long-term obligations	1,639,000
Other liabilities	1,771,000
Minority interest	417,000
Shareholders' equity	31,564,000
	$52,825,000

Condensed Consolidated Statement of Operations

Net revenues	$180,784,000
Costs and expenses	180,673,000
Operating earnings	111,000
Interest expense	(2,082,000)
Minority interest	172,000
Income tax credit	113,000
Loss from continuing operations	$ (1,686,000)
Net loss per share from continuing operations	$ (0.46)

THE PROMUS COMPANIES INCORPORATED, DECEMBER 29, 1989

The Promus Companies Incorporated
Notes to Financial Statements
(Dollars in thousands, unless otherwise stated)

Note 1—Basis of Presentation And Organization

The stock of The Promus Companies Incorporated (the Company), a Delaware corporation, was distributed to the stockholders of Holiday Corporation (Holiday) in a spin-off (Spin-off) declared by the Board of Directors of Holiday on February 7, 1990. The Spin-off preceded the merger (Merger) of a new U.S.-based subsidiary of Bass plc (Bass), an English company, into Holiday, completing the acquisition of the Holiday Inn business (HIB) by Bass. Prior to the Merger, Holiday transferred its interest in non-HIB operations and assets to Embassy Suites, Inc. (Embassy). Embassy is a wholly owned subsidiary and the principal asset of the Company. These non-HIB operations included the Harrah's gaming division, the Embassy Suites, Hampton Inn, and Homewood Suites hotel divisions and certain other assets unrelated to HIB. (See Note 2 for condensed pro forma information of the Company giving effect to the transactions.)

Note 2—Subsequent Event

On January 17, 1990, the stockholders of Holiday approved the acquisition of HIB by Bass for total consideration of $2.225 billion. The acquisition was completed on February 7, 1990, through the Merger of a new U.S.-based subsidiary of Bass into Holiday, in which Holiday's stockholders received approximately 0.27 share of a Bass American Depositary Share (ADS) (each one ADS representing one ordinary share of Bass) in exchange for each share of Holiday common stock. Prior to the Merger, the Company's common stock was declared to be distributed in a Spin-off to Holiday's stockholders. At the time of the Merger, Bass caused the surviving corporation to retire, assume or otherwise discharge Holiday's outstanding debt. Of that debt, approximately $463 million was assumed by the Company. Cash was received by the Company in the amount of the debt assumed adjusted by transaction expenses, working capital amounts, and other items. The Company paid, as part of the Spin-off and Merger transactions, approximately $43 million of the costs incurred in connection with the debt assumed, retired or otherwise discharged.

The components of the debt assumed by the Company were: the reimbursement obligations under letters of credit with fees of 2.5% backing $200 million of 8.625% notes due 1993 and $200 million of 9% notes due 1995; $39.1 million of 10.5% senior notes due 1994; $18.1 million of 11% subordinated debentures maturing 1997 to 1999; $1.5 million of 9.375% notes due 1993; $0.2 million of 8.375% notes due 1996; and $3.9 million of 15% notes due 1992.

In addition to the debt assumed as part of the Merger, the Company incurred $421.4 million of new variable rate bank borrowings on February 21, 1990. The bank financing was provided by a syndicate of banks and comprises a $410.4 million term loan facility, which was drawn down in full on February 21, 1990, and a $200 million revolving credit facility. The revolving credit facility includes $50 million for working capital and general corporate purposes and a maximum of $150 million for hotel expenditures. Of such $150 million, $50 million is available for working capital and general corporate purposes for a maximum of $100 million available for working capital and general corporate purposes. Together with the $400 million reimbursement obligations assumed, the total amount of the bank facility is approximately $1.01 billion. The term loan facility is due in semi-annual installments over seven years with interest payable quarterly. The first principal payment of $25 million is due June 30, 1991. Proceeds from hotel asset sales must be used to make mandatory prepayments. The approximately $19 million of costs incurred to obtain the financing will be capitalized and amortized over the life of the debt using the interest method.

The $400 million reimbursement obligations assumed and the $610.4 million bank financing are secured by the Harrah's casinos and casino/hotels, the stock of Embassy and its material subsidiaries, the revenue streams of the Company's franchised and management contract properties, trademarks, certain assets of the Company's development subsidiary and other hotel assets. The agreements covering all elements of the newly issued bank revolving credit and term loan agreement contain financial covenants which, among other things, require the Company to maintain a certain tangible net worth and meet other financial ratios. Other covenants limit the Company's ability to pay dividends and with certain exceptions limit additional indebtedness of the Company to $300 million of non-recourse indebtedness for hotel development.

On February 22, 1990, the Company paid a special $30-per-share cash dividend to its stockholders totalling approximately $797 million (Special Dividend). The Special Dividend was financed by the cash received in consideration of the assumption by the Company of the debt of Holiday and from the term loan facility. HIB employees participating in Holiday's restricted stock plan or option plan were cashed out by the Company as part of the Spin-off and Merger and did not receive the dividend payment. The Company paid approximately $14.9 million to cash out restricted shares and approximately $2.0 million to cash out exercisable options held by HIB employees.

In connection with the Spin-off, the Promus employees participating in Holiday's restricted stock program received one restricted share of Promus stock for each share of unvested restricted Holiday stock held.

The pro forma effects of these transactions as of and for the year ended December 29, 1989, are summarized below. Pro forma balance sheet information is presented as though the transactions occurred on December 29, 1989, while the pro forma income statement information is presented as though the transactions occurred on the first day of fiscal 1989.

	As Reported	Pro Forma (Unaudited)
Balance Sheet		
Current assets	$ 120,884	$ 108,645
Property and equipment, net	978,917	978,917

	As Reported	Pro Forma (Unaudited)
Other assets	$ 228,882	$ 254,250
Total assets	$1,328,683	$1,341,812
Current liabilities	$ 178,803	$ 172,519
Long-term debt	24,734	914,316
Other long-term liabilities	45,802	45,802
Deferred income taxes	—	33,280
Stockholders' equity		
Common stock	—	39,845
Capital surplus	—	158,766
Deferred compensation related to restricted stock	—	(22,716)
Parent company investment, net	1,079,344	—
Total stockholders' equity	1,079,344	175,895
Total liabilities and equity	$1,328,683	$1,341,812
Income Statement		
Revenues	$ 944,807	$ 944,807
Operating expenses	(757,347)	(758,888)
Property transactions	20,994	20,994
Operating income	208,454	206,913
Corporate expense	(35,319)	(37,159)
Interest, net of interest capitalized	(26,178)	(131,968)
Interest income	4,998	4,998
Other income (expense), net	2,661	2,661
Income before income taxes	154,616	45,445
Provision for income taxes	—	(19,851)
Net income	$ 154,616	$ 25,594
Income per share		$ 1.00
Average common and common equivalent shares outstanding	25,696	

After the transactions, annual principal requirements for the five years subsequent to 1989 will be: 1990, $3.1 million; 1991, $51.8 million; 1992, $57.9 million; 1993, $203.9 million; and 1994, $151.0 million.

The pro forma balance sheet includes the issuance of 26,563,179 shares of common stock of the Company with a par value of $1.50.

Pro forma net income includes the effect of additional interest expense on the approximately $890 million of borrowings assumed and incurred by the Company as part of the transactions. Interest was calculated using a weighted average rate of 11.2% (before amortization of deferred financing costs). On a pro forma basis, the ratio of earnings to fixed charges for fiscal 1989 would have been 1.3. An effective tax rate of 39.7% has been used to calculate the tax provision for the Company's historical results in accordance with Accounting Principles Board Opinion No. 11 as the Company has not yet adopted Financial Accounting Standards Board Statement No. 96. Due to the complexity of the pronouncement, the Company has not yet determined the impact that adoption will have on its financial statements or when it will adopt the pronouncement. A combined federal and state tax rate of 38% was used to calculate the provision for income taxes related to the pro forma adjustments. Deferred income taxes related to the Company were transferred as part of the Merger and are included in the pro forma balance sheet. All federal and state income taxes currently payable by Holiday to the date of the Merger have been excluded from the balance sheet as they will be paid by Holiday. In accordance with the pro forma rules, no pro forma income statement adjustments have been made related to items of a nonrecurring nature.

Southern Union Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1989, 1988, and 1987

Subsequent Event—Cash Merger (Unaudited)

The Company and Metro Mobile CTS, Inc. ("Metro Mobile") completed a cash merger transaction on February 6, 1990, in which the Company's common shareholders were paid $13.80 per share and the preferred shareholders were paid the current redemption price of $108 per share. The transaction was structured such that Southern Union survived the merger as an independent corporate entity with a new group of shareholders, a new board of directors, and three new senior officers. After the merger, Southern Union has 5,286,810 shares of common stock, $1 par value, and 250,000 shares of Series A 10% cumulative preferred stock, $100 stated value, outstanding. Southern Union's existing long-term debt and revolving loan facility were unaffected by the merger. Metro Mobile financed the acquisition through bank borrowings; however, neither the Company's assets nor its cash flows are encumbered to service the acquisition debt.

The new Southern Union common stock is traded on the American Stock Exchange under the symbol SUG; the new preferred stock is held by Metro Mobile.

The following pro forma condensed consolidated balance sheet is based upon the Company's historical balance sheet as of December 31, 1989 and includes pro forma adjustments as though the merger had occurred on December 31, 1989. The principal impact on future reported earnings will be monthly amortization of the amount of the purchase price assigned to utility plant that exceeds the book carrying value of utility plant on the date of the merger; such amount will be amortized over thirty years using the straight-line method. The annual amortization of the $44,419,000 assigned to utility plant in the following pro forma adjustments would be $1,481,000 or $0.28 per common share based on 5,286,810 shares outstanding after the merger.

Pro Forma Condensed Consolidated Balance Sheet
December 31, 1989

	Historical	Pro Forma Adjustments at Merger	As Adjusted
ASSETS			
Net property, plant and equipment	$219,027	(f)$ 44,419	$263,446
Net assets of discontinued operations	48,400	(f) 17,530	65,930
Real estate and other investments	19,636		19,636
		(a) 162,700	
Cash	1,545	(b) (129,041)	
		(c) (27,000)	4,089
		(d) (4,115)	
Other current assets	47,192		47,192
Deferred charges	8,572	(e) (122)	8,450
		(a) 300	
Capital stock expense	1,982	(b) (1,643)	300
		(c) (339)	
		(b) 57,834	
Excess of cost over net assets acquired	—	(d) 4,115	—
		(f) (61,949)	
Total assets	$346,354	$ 62,689	$409,043
STOCKHOLDERS' EQUITY AND LIABILITIES			
Common stock	$ 10,234	(a)$ 5,287	$ 5,287
		(b) (10,234)	
		(a) 144,713	
Premium on capital stock	30,782	(b) (32,425)	140,609
		(c) (2,339)	
		(e) (122)	

	Historical	Pro Forma Adjustments at Merger	As Adjusted
Retained earnings	$ 43,473	(b)$ (43,473)	$ —
Treasury stock	(1,282)	(a) (12,000)	—
		(b) 13,282	—
Redeemable preferred stock	25,000	(a) 25,000	25,000
		(c) (25,000)	
Long-term debt, net of current maturities	104,922		104,922
Current liabilities	59,446		59,446
Deferred credits	18,224		18,224
Contributions in aid of construction	30,168		30,168
Accumulated deferred taxes on income	25,387		25,387
Total stockholders' equity and liabilities	$346,354	$ 62,689	$409,043

(a) Reflects the capitalization of SU Acquisition, Inc. with $150,000,000 of common equity, consisting of $137,999,520 in cash and 869,600 shares of Southern Union common stock in exchange for 5,286,810 shares of common stock, $1 par value and $25,000,000 in cash in exchange for 250,000 shares of 10% cumulative preferred stock, $100 stated value.

(b) Reflects the purchase of 9,309,251 shares of Southern Union common stock for $13.80 per share, cancellation of 55,011 shares of Southern Union common stock held in treasury and of 869,600 shares contributed to SU Acquisition, Inc. by Metro Mobile and the settlement of options for 95,500 shares of Southern Union common stock for $6 per share.

(c) Reflects the redemption of 250,000 shares of Southern Union preferred stock at $108 per share.

(d) Reflects payment of non-recurring Merger related expenses.

(e) Reflects the write-off of the unamortized cost of Southern Union common stock purchased pursuant to Southern Union's Restricted Stock Plan.

(f) Reflects allocation of purchase cost to net assets of discontinued operations to present such assets at their estimated fair market value. The merger will be accounted for using the purchase method of accounting which requires that the purchase cost be allocated to Southern Union's assets and liabilities based upon their fair values. The allocation of purchase cost, other than the amount assigned to the net assets of discontinued operations, has not yet been performed; however, it is expected that the historical carrying values of substantially all of the other assets, except utility plant, and liabilities approximate current fair values. Accordingly, the remaining excess of purchase cost over recorded values has been assigned to utility plant for the purpose of this pro forma balance sheet.

SPARTECH CORPORATION, OCTOBER 28, 1989

Spartech Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note K—Subsequent Event—Equity Placement

On September 8, 1989, the Company sold to British Vita PLC, a United Kingdom public limited company, 550,000 shares of previously unissued common stock at $4.50 per share. After shareholder approval on November 30, 1989, British Vita PLC, on December 1, 1989, purchased an additional 550,000 shares of previously unissued common stock at $4.50 per share and 415,000 shares of previously unissued 7% Convertible Preferred Stock at $45.00 per share. The $23,625 aggregate proceeds from the sales ($2,475 of which was received on September 8, 1989) net of offering costs associated with the transactions, were used to retire existing indebtedness of the Company.

Each share of preferred stock is convertible into ten shares of common stock at $ 4.50 per share, provided that after giving effect to the conversion, Vita ownership does not exceed 40% of the number of common shares then outstanding. The preferred stock is not subject to mandatory redemption. With respect to each $2,000 in conversion of the Company's convertible debt or exercise of warrants or options, in the aggregate, the preferred stock is subject to mandatory conversion. The Company has the option to redeem the preferred stock under certain conditions.

The following unaudited pro forma financial information assumes the sale of the 550,000 shares of common stock and 415,000 shares of preferred stock as of the beginning of fiscal year 1989 for the Condensed Statement of Operations and as of October 28, 1989 for the Capitalization Table. The proceeds from the sale were assumed to be used to retire existing indebtedness of the Company. In addition, the pro forma financial information assumes expenditures of approximately $1,100 for offering costs associated with the transactions.

The results presented in the following unaudited pro forma financial information are not necessarily indicative of what would have occurred had the transaction been consummated as of the dates indicated, nor are they necessarily indicative of the future operations of the Company.

Condensed Statement of Operations October 28, 1989

	Fiscal Year Ended October 28, 1989	
	As Reported	Pro Forma
Revenues	$185,211	$185,211
Cost and Expenses	(175,919)	(175,919)
Unusual Nonrecurring Expenses	(3,315)	(3,315)
Operating Earnings	5,977	5,977
Interest	(8,141)	(5,735)
Net Earnings (Loss) From Continuing Operations	(2,164)	242
Preferred Stock Dividends	—	(1,307)
Net Loss From Continuing Operations Applicable to Common Shares and Equivalents	$ (2,164)	$ (1,065)
Loss From Continuing Operations Per Share:		
Primary	$ (0.75)	$ (0.31)
Fully Diluted	(0.75)	(0.31)

Capitalization Table

	October 28, 1989	
	As Reported	Pro Forma
Long-Term Debt		
Senior Debt	$ 55,187	$ 35,137
Convertible Subordinated Debt	29,447	29,447
Subordinated Debt	15,000	15,000
Total Long-Term Debt	$ 99,634	$ 79,584
Stockholders' Equity		
Preferred Stock	$ —	$ 415
Common Stock	2,869	3,282
Contributed Capital	25,592	44,814
Accumulated Deficit	(18,550)	(18,550)
Treasury Stock	(1,601)	(1,601)
Total Stockholders' Equity	$ 8,310	$ 28,360

THE TITAN CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share data)

Note 12. Discontinued Operations and Divestitures

On December 31, 1988, the Company sold all of the assets except accounts receivable and 27.5 acres of land of its Advanced Materials Division to Powdertech Corp. ("Powdertech"), a wholly owned subsidiary of Nippon Iron Powder Co., Ltd., pursuant to an Asset Purchase Agreement among the parties, resulting in a pre-tax gain of $10,634. The consideration for the purchase consisted of a non-interest bearing promissory note from Powdertech to the Company in the principal amount

of $14,560, payable and received on January 31, 1989, and the assumption by Powdertech of approximately $413 of liabilities of the Advanced Materials Division. The Company has agreed to indemnify the buyer from environmental liabilities for a period of five years and has provided a one-year letter of credit in the amount of $2,000 (reduced to $1,000 after six months) to cover any failures in the Company's representations and warranties. The note receivable was discounted by $150 at December 31, 1988, to reflect an appropriate market rate of interest.

Also on December 31, 1988, the Company sold its 87.5% equity interest in CAST to CAST and the former owners of CAST pursuant to a Stock Purchase and Sale Agreement among the parties, resulting in a pre-tax loss of $1,795. The consideration for the purchase consisted of an interest-bearing promissory note from CAST to the Company in the principal amount of $656, the assignment to the Company of CAST accounts receivable of approximately $500 and a royalty bearing license for certain technology. The note is payable in equal installments on February 3, 1989 and March 3, 1989 and is secured by personal guarantees of the individual shareholders of CAST and a security interest in the assets of CAST. The February 3, 1989 installment was received when due.

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In July 1987, the Company sold an 80% interest in its Canadian operation, which manufactures high-alloy castings. Proceeds were $3,600 resulting in a pre-tax gain of $847. In October 1988, the Company sold the remaining 20% interest in this operation. Net proceeds to the Company were $935, consisting of cash at closing of $225 and a note receivable of $710, and resulting in a pre-tax gain of $316. The note is due and was received in January 1989.

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Note 13. Subsequent Events

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In March 1989, the Company completed a tender offer and acquired 2,500,000 shares of its common stock, at $3 per share, for treasury and 218,000 shares of its preferred stock, at $10 per share, which were retired. The following unaudited pro forma balance sheet reflects the Company's financial position as if the notes receivable from the sale of businesses (discussed in Note 12) had been collected, the common and preferred shares tendered had been repurchased and the remaining cash was used to retire debt, all as of December 31, 1988.

	(Unaudited) Pro Forma December 31, 1988
ASSETS	
Cash	$ 390
Notes receivable	—
Other current assets	46,836
Non-current assets	15,093
Total assets	$62,319
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	$23,000
Long-term debt	6,500
Other non-current liabilities	8,429
Preferred stock	729
Common stock	134
Capital in excess of par value	24,474
Retained earnings	9,377
Treasury stock at cost	(10,324)
Total stockholders' equity	24,390
Total liabilities and stockholders' equity	$62,319

APPENDIX

USING NAARS TO OBTAIN ADDITIONAL EXAMPLES OF PRO FORMA STATEMENTS REFLECTING SUBSEQUENT EVENTS OR AUDITORS' REPORTS ON THOSE STATEMENTS

Readers of this survey can use NAARS to obtain additional examples of pro forma financial statements reflecting subsequent events or auditors' reports on those statements. Readers without access to NAARS can do so by requesting that the AICPA conduct a search for additional examples. For further information, call Hal Clark at 1 (212) 575–3859.

Readers who have access to NAARS can obtain additional examples by using the search frames that were used to obtain the examples presented in this survey. The following search frame was used to find examples of pro forma financial statements reflecting subsequent events and presented outside the historical financial statements:

B/S (PRO FORMA) OR I/S (PRO FORMA).

Following those instructions, the computer presented the names of companies whose annual reports contained balance sheets or income statements with the words "pro forma" in the body of the statements. (No additional examples were obtained by using the word "pro forma.") Most of those statements contained additional columns for pro forma statements reflecting subsequent events.

The following search frame was used to find examples of reports of independent auditors on pro forma statements reflecting subsequent events and presented outside the historical statements:

REPRT (PRO FORMA).

Following those instructions, the computer presented the names of companies whose annual reports contained reports of independent auditors with the words "pro forma" in the reports. Some of the reports were dual reports that combined a report on the historical financial statements with a report on pro forma statements reflecting subsequent events and presented outside the historical statements.

The following search frame was used to find examples of pro forma statements reflecting subsequent events and presented in notes to the historical statements:

FTNT (PRO FORMA W/SEG SUBEV).

Following those instructions, the computer presented the names of companies whose annual reports contained financial statements with a note that contained both the words ''pro forma'' and the descriptor ''SUBEV,'' which is assigned to any note that presents information about subsequent events. Some notes of that kind contained pro forma statements reflecting subsequent events.

FINANCIAL REPORT SURVEYS*

23 **Illustrations and Analysis of Disclosures of Inflation Accounting Information (1981)**
A survey of the application of the requirements of FASB Statement Nos. 33, 39, 40, and 41

24 **Illustrations of Foreign Currency Translation (1982)**
A survey of the application of FASB Statement No. 52

25 **Illustrations of Accounting for Innovative Financing Arrangements (1982)**

26 **Updated Illustrations of Management's Discussion and Analysis of Financial Condition and Results of Operations (1983)**
A survey of the application of recently amended Rules 14a-3 and 14c-3 of the Securities Exchange Act of 1934 in annual reports to shareholders

27 **Illustrations of Accounting and Reporting by Development Stage Enterprises (1984)**
A survey of the application of FASB Statement No. 7

28 **Illustrations of Accounting for Enterprises in Unusual Circumstances and Reporting on Them by Independent Accountants (1984)**
A survey of • troubled enterprises • reorganized enterprises • liquidating enterprises

31 **Illustrations of "Push Down" Accounting (1985)**

32 **Illustrations of Accounting for In-Substance Defeasance of Debt (1986)**
A survey of the application of FASB Statement No. 76

33 **Illustrations of Accounting for Pensions and for Settlements and Curtailments of Defined Benefit Pension Plans (1987)**
A survey of the application of FASB Statement Nos. 87 and 88

34 **Illustrations of Accounting for the Inability to Fully Recover the Carrying Amounts of Long-Lived Assets (1987)**
A survey of the subject of an issues paper by the AICPA Accounting Standards Division's Task Force on Impairment of Value

35 **Updated Illustrations of Reporting Accounting Changes (1987)**
A survey of the application of APB Opinion No. 20, as amended

36 **Illustrations of Accounting Policy Disclosure (1987)**
A survey of the application of APB Opinion No. 22

37 **Illustrations of Accounting for Income Taxes (1989)**
A survey of the application of FASB Statement No. 96

38 **Illustrations of Cash-Flow Financial Statements (1989)**
A survey of the application of FASB Statement No. 95

39 **Quasi-Reorganizations (1989)**
A survey of quasi-reorganizations disclosed in corporate annual reports to shareholders

40 **Illustrations of the Presentation of Financial Information About Consolidated Nonhomogeneous Subsidiaries**
A survey of the application of FASB Statement No. 94

41 **Illustrations of Departures From the New Standard Auditor's Report on Financial Statements of Business Enterprises (1990)**
A survey of the application of SAS No. 58

42 **Illustrations of the Disclosure of Related-Party Transactions (1990)**
A survey of the application of FASB Statement No. 57

43 **Illustrations of Compliance Findings in Single Audit Reports of Local Governmental Units (1991)**
A survey of reporting under the Single Audit Act of 1984 and OMB Circular No. A-128

44 **Illustrations of Pro Forma Financial Statements That Reflect Subsequent Events (1991)**

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