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Illustrations of the disclosure of related-party transactions : a survey of the application of FASB statement no. 57; Financial report survey, 42

Hal G. Clark

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Financial Report Survey
July 1990

Illustrations of the Disclosure of Related-Party Transactions

A Survey of the Application of FASB Statement No. 57

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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.

John Graves
Director, Technical Services

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I

SCOPE AND PURPOSE OF THE SURVEY

This survey is intended primarily to help accountants of business enterprises apply Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 57, *Related-Party Disclosures.* SFAS No. 57 specifies certain information that must be disclosed in financial statements of business enterprises about transactions between related parties.

REQUIREMENTS OF SFAS NO. 57

SFAS No. 57 describes two kinds of relationships between transacting parties:

1. One transacting party controls or can significantly influence the management or operating policies of the other.
2. A third party controls or can significantly influence the management or operating policies of both of the transacting parties.

SFAS No. 57 applies to four kinds of transactions characterized by those relationships between the transacting parties:

1. Transactions between components of the reporting enterprise. A component is the parent company or an enterprise controlled or significantly influenced by the parent company.
2. Transactions between the reporting enterprise and an enterprise that controls or significantly influences the reporting enterprise.
3. Transactions between the reporting enterprise and people who control or significantly influence the reporting enterprise.
4. Transactions between the reporting enterprise and an enterprise with which the reporting enterprise is under common control or significant influence by a third enterprise.

Transactions with the preceding characteristics are called "related-party transactions" in SFAS No. 57.

SFAS No. 57 requires the following information to be disclosed about related-party transactions:

1. The nature of the relationship.
2. A description of the transaction.
3. The dollar amount of the transaction.
4. Amounts due from or to related parties as of the balance sheet date.

Appendix B to this survey describes additional sources of authoritative guidance on disclosing related-party transactions.

SOURCE OF ILLUSTRATIONS

To disclose information about related-party transactions in accordance with SFAS No. 57 requires considerable judgment. An accountant who is confronted with problems in applying the Statement can benefit from learning how other accountants are applying it in practice. Accordingly, this publication presents 210 excerpts from recently published financial statements that illustrate how to apply SFAS No. 57.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented herein were selected from companies in the 1988/89 annual report file. See appendix A on how to use NAARS to obtain additional examples.

II

TRANSACTIONS BETWEEN COMPONENTS OF THE REPORTING ENTERPRISE

Transactions between components of the reporting enterprise are related-party transactions under SFAS 57. Such transactions occur between these components:

- The parent company and an enterprise controlled or significantly influenced by the parent company.
- Two enterprises controlled or significantly influenced by the parent company.

Fifty-five examples are presented in this chapter to illustrate how companies disclosed transactions between such components. The examples are classified according to the type of transaction that occurred.

LOAN OR DEBT GUARANTEES

ANALOG DEVICES, INC., OCTOBER 29, 1988

Analog Devices, Inc.
Notes to Consolidated Financial Statements
Years Ended October 29, 1988, October 31, 1987, and November 1, 1986

Note 9. Commitments and Contingencies

●●●●

At October 29, 1988, the Company has guaranteed $682,000 of debt of investee companies related to the financing of equipment. The guarantee is collateralized by secondary liens on the property. The Company is also contingently liable to a bank for $2,900,000 as the guarantor of an investee company's borrowings under a credit line which is collateralized by the borrower's assets.

COLLINS INDUSTRIES, INC., OCTOBER 31, 1988

Collins Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements For the Three Years Ended October 31, 1988

(3) Notes Payable:

●●●●

The Company's wholly owned subsidiary, Wheeled Coach Industries, Inc., has a financing and term loan agreement with a bank under which it may borrow up to $11,200,000 in the form of a term loan and a revolving loan, subject to certain conditions as discussed below. Loans under the agreement are collateralized by all the receivables, inventories, equipment and real property of Wheeled Coach and have been guaranteed by the Company. The interest rate on all such loans is 1.4% over the bank's prime rate (effective rate of 11.4% at October 31, 1988).

The agreement also provides that the bank will issue letters of credit on Wheeled Coach's behalf for the benefit of major vehicle manufacturers to facilitate the consignment of chassis inventories. None were outstanding at October 31, 1988.

The amount of the Wheeled Coach revolving loan cannot exceed $6,700,000 less the sum of 50% of the amount of credit available under the letters of credit discussed above and the amount by which the total of the term loan exceeds $3,650,000. The amount of unused revolving line of credit at October 31, 1988 was $1,160,000. Borrowings available to Wheeled Coach at October 31, 1988, based on borrowing availability, were approximately $980,000.

GENERAL HOMES CORPORATION, SEPTEMBER 30, 1988

General Homes Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(2) Certain Developments

●●●●

The Company and its wholly owned mortgage banking subsidiary, FGMC, Inc. (FGMC), and FGMC's lenders agreed to interim concessions regarding the FGMC "mortgage warehouse" revolving line of credit (FGMC Credit Agreement). Such agreement, which was originally scheduled to expire on April 15, 1988, was extended until November 30, 1988 and, as of December 13, 1988, had not been extended beyond November 30, 1988. On November 30, 1988, the entire principal balance became due and payable in full. The FGMC lenders have informed FGMC that, until FGMC is notified to the contrary, the FGMC lenders may, in their sole discretion, continue to advance funds to FGMC. As of December 13, 1988, FGMC had received no such notice, and funds were still being advanced to FGMC.

On August 2, 1988, the Company, FGMC and the FGMC lenders reached an agreement in principle to revise the FGMC Credit Agreement upon implementation of any restructured Credit Agreement. Such agreement in principle, which originally was to expire on August 10, 1988, was extended to October 19, 1988, but as of December 13, 1988, had not been extended beyond October 19, 1988. The Company understands that the present failure of the FGMC lenders to agree to an extension apparently results in part from possible lending limitations applicable to one of the FGMC lenders. Such lender, a bank, has a 5.9% interest in the FGMC Credit Agreement.

. . . FGMC has made, and plans to continue to make, interest payments (at the prime rate) due to the FGMC lenders. . . . The Company is monitoring the situation of the Lender. . .whose possible lending limitations, as described above, have apparently resulted in the present lack of extension of the agreements in principle relating to restructurings of the Credit Agreement and the FGMC Credit Agreement. . . .

(9) Commitments and Contingencies

Guarantee of FGMC debt. Pursuant to a guaranty modification agreement, dated as of June 14, 1988, the Company guarantees all of FGMC's debt ($14,900,000 at September 30, 1988) that may be outstanding from time to time under the FGMC Credit Agreement. See Note 2. Company also guarantees FGMC's note payable with an outstanding balance of $12,569,000 at September 30, 1988, which is secured by notes, receivable-property sales and real estate owned. Additionally, the Company guarantees FGMC's notes payable secured by first mortgage loans with an aggregate outstanding balance of $10,905,000 as of September 30, 1988.

INTERNATIONAL DAIRY QUEEN, INC., NOVEMBER 30, 1988

International Dairy Queen, Inc.
Notes to Consolidated Financial Statements
November 30, 1988, 1987, and 1986

4. Long-Term Debt

Long-term debt is summarized as follows (000's omitted):

	1988	1987
Revolving credit agreement borrowings, maturing in 1990, with interest at 10 ½% at November 30, 1988	$4,000	$12,000
....	....	....

The Company has a revolving credit agreement which provides for borrowings up to $15,000,000 through September 30, 1990. The agreement also provides, among other things, for borrowings at the bank's prime interest rate, a commitment fee of ⅜% on the full amount of the line of credit, and allows the Company at its election to issue commercial paper notes at their current market interest rates. The loans are guaranteed by certain of the Company's subsidiaries.

RAYMOND JAMES FINANCIAL, INC., SEPTEMBER 30, 1988

Raymond James Financial, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6. Commitments and Contingencies:

In connection with certain real estate limited partnerships syndicated by Raymond James & Associates, Inc., the Company was contingently liable for $2,300,000 at September 30, 1988 in the form of loan guarantees.

At September 30, 1988 the Company had guaranteed $890,000 of bank debt of a limited partnership distributed by a subsidiary of the Company which invested in radio and television properties. Subsequent to year end additional debt was guaranteed, raising the total amount guaranteed to $1,575,000. This partnership is experiencing cash flow difficulties and additional guarantees may be necessary. The repayment of the debt by the partnership is uncertain, and losses to the Company may result.

Summary of Significant Accounting Policies

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Basis of Consolidation. The consolidated financial statements include the accounts of Raymond James Financial, Inc. and its subsidiaries. . . . The consolidated subsidiaries at September 30, 1988 are as follows: . . . Raymond James & Associates, Inc. . . .

UNITED INNS, INC. SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements

3. Long-Term Debt

●●●●

. . .The Parent Company is guarantor of the major portion of the debt of its subsidiaries.

UNITEL VIDEO, INC., AUGUST 31, 1988

Unitel Video, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended August 31, 1988, 1987, and 1986

I. Investment in and Advances to Affiliates: Omnibus Computer Graphics, Inc.

●●●●

Mediatech East and Mediatech West. The Company had entered into two partnership agreements with Mediatech, Inc., which were accounted for by the equity method. . .

The Company withdrew from the Mediatech East partnership effective December 31, 1986. . .

Long-term financing was arranged in December 1985 with a $4,000,000 industrial development bond. The loan bears interest at the short-term tax-free money market rate and is payable in annual installments through December 1995. The obligation has been guaranteed, jointly and severally, by the Company and Mediatech, Inc. The Company will remain a guarantor of this obligation after the sale of its partnership interest. However, Mediatech Inc. has arranged for a $500,000 letter of credit in favor of the Company as well as the addition of the personal guarantee of the principal shareholder of Mediatech Inc., as guarantee for repayment of the loan.

VERTEX INDUSTRIES, INC., JULY 31, 1988

Vertex Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8. Short-Term Bank Borrowings:

●●●●

The Company's foreign subsidiary, Dicom, has a bank line of credit in the amount of $225,000 DM (approximately $123,500). At June 30, 1988, Dicom had utilized the entire credit line. The Company is contingently liable on standby letters of credit in the amount of the loan. The standby letters of credit are collateralized by Repurchase Agreements totaling $85,000.

INCOME TAX CONSOLIDATED RETURN

CHEVRON CORPORATION, DECEMBER 12, 1988

Notes to Consolidated Financial Statements
(millions of dollars)

Note 11. Taxes

It is the Company's policy for subsidiaries included in the U.S. consolidated tax return to record income tax expense as if they filed separately, with the parent recording the adjustment to income tax expense for the effects of consolidation.

CONTROL DATA CORPORATION, DECEMBER 31, 1988

Control Data Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
For the three years ended December 31, 1988

A. Accounting Policies

Income Taxes. . . .Company and its eligible subsidiaries, including Commercial Credit through November 5, 1986, file a consolidated U.S. federal income tax return. While Commercial Credit was part of the consolidated group, the companies had a tax sharing agreement which permitted each company to utilize its losses and credits on a stand-alone basis.

C. Income Taxes

The credit for U.S. federal income taxes for 1986 of $21.3 results primarily from payment received from Commercial Credit under the intercompany tax sharing agreement.

GAF CORPORATION, DECEMBER 31, 1988

GAF Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 12. Business Segments Information

*The results of operations of GAF Building Materials, GAF Broadcasting and GAF Insurance are included in the Federal income tax returns of GAF. The provision for Federal and state income taxes has been computed utilizing the applicable statutory rates after giving effect to investment tax credits. The effects of permanent differences are not significant.

GREYHOUND CORPORATION, DECEMBER 31, 1988

Notes To Consolidated Financial Statements
Three Years Ended December 31, 1988

Note J. Income Taxes

Eligible subsidiaries are included in the consolidated federal and other applicable income tax returns of Greyhound.

Certain benefits of tax losses and credits, which would not have been currently available to certain subsidiaries on a separate return basis, have been credited to those subsidiaries by Greyhound. These benefits are included in the determination of the income taxes of those subsidiaries and this policy has been documented by written agreements between Greyhound and certain subsidiaries.

INSPIRATION RESOURCES CORPORATION, DECEMBER 31, 1988

Notes to the Consolidated Financial Statements

8. Investment in Leases

The unpaid portion of ILI's separate company income tax liability pursuant to a tax sharing agreement with the Corporation is reported by ILI as a payable to the parent company.

On December 31, 1986, ILI completed the sale of its interest in certain of its assets for approximately $91 million in cash. The sale resulted in an income tax liability of $100.5 million, and, as a result of the application of the purchase method of accounting, an equivalent gain on the sale was recognized. ILI used the proceeds to repay a substantial portion of the borrowings incurred at acquisition and to pay $42.7 million to the Corporation pursuant to the terms of the consolidated tax sharing agreement.

LOEWS CORPORATION, DECEMBER 31, 1988

Loews Corporation and Subsidiaries
Notes to Consolidated Financial Statements

10. Income Taxes.

The Company has entered into separate tax allocation agreements with Bulova and CNA, majority-owned subsidiaries in which its ownership exceeds 80% (the "Subsidiaries"). Each agreement provides that the Company will (i) pay to the Subsidiary the amount, if any, by which the Company's consolidated Federal income tax is reduced by virtue of inclusion of the Subsidiary in the Company's return, or (ii) be paid by the Subsidiary an amount, if any, equal to the federal income tax which would have been payable by the Subsidiary if it had filed a separate consolidated return. Under these agreements, the Federal income tax (expense) benefit to CNA amounted to approximately $108,000,000, $ 161,000,000, and $ 186,000,000 for the years ended December 31, 1988, 1987, and 1986, respectively, and to Bulova amounted to approximately $2,700,000, $1,400,000, and $10,500,000 for the years ended December 31, 1988, 1987 and 1986, respectively. Each agreement may be cancelled by either of the parties upon thirty days' written notice.

NATIONAL PATENT DEVELOPMENT CORPORATION, DECEMBER 31, 1988

National Patent Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements

5. Interferon Sciences, Inc.

At December 31, 1988, the Company had an 86% voting control in Interferon Sciences, Inc. (ISI), which has developed two pharmaceutical products containing alpha interferon. . . .

ISI qualified for inclusion in the Company's consolidated income tax return beginning in 1984, and the Company entered into a Tax Sharing Agreement with ISI whereby the Company agreed to remit to ISI 50% of the reduction in the Company's consolidated Federal income tax liability attributable to any loss or credit of ISI. ISI and the Company also entered into a second agreement pursuant to which the Company agreed to utilize all the monetary benefits it received under the Tax Sharing Agreement (after the payment to ISI) to purchase up to 100,000 shares (in any calendar year) of ISI's common stock from ISI at a price equal to 90% of the average of the closing bid and asked prices of the stock as quoted by NASDAQ for a period of 30 days prior to such purchase. Pursuant to these agreements, in January 1986, the Company issued to ISI 48,000 shares of the Company's common stock (at an aggregate guaranteed price of $890,000) to pay for the income tax benefits previously availed of by the Company and to purchase 100,000 shares of ISI's common stock for $445,000 (the required shares at the specified price under the formula). In 1986, ISI sold 38,500 of the Company's shares for $892,000 and returned the $2,000 excess to the Company. ISI sold the remaining 9,500 shares during 1987 and returned the $176,000 proceeds to the Company.

ORION CAPITAL CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements
Years Ended December 31, 1988, 1987, and 1986

Note G. Federal Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. GNC is consolidated with the Company, for federal income tax purposes, effective on November 1, 1988. . . .

The 1988 consolidated federal income tax provision includes GNC's 1988 federal income tax expense for the full year even though GNC will only be includible in the Company's consolidated federal income tax return from November 1, 1988. . . .

Prior to the GNC Acquisition, GNC received an IRS revenue agent report summarizing the results of an examination of its tax returns for the years 1979 through 1983. The report proposes that GNC owes an additional $2,500,000 in taxes plus interest. No provision for these additional taxes has been made because GNC disagrees with certain assessments related primarily to the timing of income tax deductions and believes it has meritorious defenses.

LEASE ARRANGEMENTS

DIGITAL SOLUTIONS, INC., SEPTEMBER 30, 1988

Digital Solutions, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

11. Related-Party Transactions:

The Company entered into a joint venture (Headquarters 8A, "the Partnership") with an unrelated investor. The Partnership was formed August 9, 1988, for the purpose of acquiring and leasing office space in Monroe Township, New Jersey. The Company is a 50% general partner in the Partnership.

In October 1988, the Company entered into a lease for office space with the Partnership for a term of five years at an annual rental of approximately $140,000 (see Note 5). In addition, the Company is charged for real estate taxes and insurance. Through November 1988, the Company had advanced an additional $50,000 to the Partnership.

FIRST BANK SYSTEM, INC., DECEMBER 31, 1988

First Bank System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988

Note N. Commitments and Contingent Liabilities

A wholly owned subsidiary of First Bank National Association ("the Bank") is a partner in a joint venture which owns and operates a twin-tower office complex known as Pillsbury Center. The Bank and the Parent Company have long-term lease agreements to occupy space in one of the towers. The unamortized portion of the capitalized lease obligation was $24.3 million at December 31, 1988, and 1987. Minimum annual payments required under these leases are approximately $2.7 million.

FOODARAMA SUPERMARKETS, INC., OCTOBER 29, 1988

Notes to Consolidated Financial Statements

3. Other Assets:

In November 1986, the Company entered into a partnership in which the Company is a 40% limited partner. The partnership was formed to acquire a shopping center in West Long Branch, N.J. in which the Company is leasing a store which has been accounted for as a capital lease (see Note 5).

5. Obligations Under Capital Leases:

The following is a schedule by years of future minimum lease payments under capital leases.

Included in the above are two leases on stores, one of which is being leased from a partnership in which the Company has a 40% limited partnership interest (see Note 3) at an annual rental of $480,000.

HOME FEDERAL SAVINGS AND LOAN ASSOCIATION OF THE ROCKIES, DECEMBER 31, 1988

Home Federal Savings and Loan Association of the Rockies and Subsidiary
Notes to Consolidated Financial Statements
Years Ended December 31, 1988, 1987, and 1986

F. Investment in Joint Ventures:

Northern Financial Corporation (NFC), a wholly owned subsidiary of the Association, owns 50% of Trail West, NFC/Shores, Brookfield Village and Ramblewood, joint ventures which are engaged in land development and the construction and management of commercial and residential property.

●●●●

NFC/Shores

●●●●

The Association has leased space in the rental property for a five-year period with five, five-year renewal options. Initial lease payments are $6,000 per month with a 5% per year escalation. The Association has also agreed to pay its proportionate share of the venture's operating expenses which exceed $35,000 each year. Revenue of $88,000, $84,000 and $86,000 from this lease in 1988, 1987 and 1986, respectively, is included in the condensed statements of operations.

PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY OF AMERICA, DECEMBER 31, 1988

Provident Life and Accident Insurance Company of America and Subsidiaries
Notes to Consolidated Financial Statements

Note J

Related-Party Transactions. As of December 31, 1988, 1987, and 1986, the Company was a partner in twenty-three, nineteen, and sixteen real estate partnerships, respectively. In addition to its role as a partner, whereby it shares in the profits and losses in accordance with the various partnership agreements, the Company. . . . leased land to four of the partnerships for each of the three years in the period ended December 31, 1988. During the years ended December 31, 1988, 1987, and 1986, . . . the rental income from the land leased to these partnerships was $356,000, $410,000, and $461,000, respectively.

●●●●

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE, DECEMBER 31, 1988

Public Service Company of New Hampshire
Notes to Financial Statements

9. Leases

. . . the Company leases certain property from a wholly owned real estate subsidiary.
Rentals charged to expense in 1988, 1987 and 1986 were $4,826,000, $4,814,000, and $4,772,000, respectively, including rentals to the wholly owned real estate subsidiary of $1,230,000 in 1988.

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TEXAS EASTERN CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 7. Related-Party Transactions

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The company has an approximate 44% interest in a master limited partnership, Petrolane Partners, L.P., which purchases, transports, stores, distributes, and markets LP-Gas in retail and wholesale markets.

The company leases stationary customer storage tanks to the partnership under a long-term capital lease agreement. At December 31, 1988 and 1987, investments and receivables include $178.6 million and $233.3 million, respectively, for the capital lease receivable, including the current portion, and for notes receivable related to the assumption of company indebtedness by the partnership (see Notes 3, 10 and 14). Other income includes approximately $17.1 million and $13.1 million of income relating to the long-term capital lease for the year 1988 and the nine months ended December 31, 1987, respectively (see Note 2).

Accounts and notes receivable from related parties as shown in the Consolidated Balance Sheets are primarily due from the partnership in 1988 and 1987.

●●●●

Note 10. Leases

●●●●

Investment in Sales-Type Lease, Net. In 1987, the company entered into a capital lease agreement with the partnership for an initial term of 15 years, renewable thereafter. Information pertaining to the company's net investment and future lease income is as follows:

Years Ended December 31	*(in millions)*
1989	$21.3
1990	21.3
1991	21.3
1992	21.3
1993	21.3
Remaining years	211.0
Future lease receivable for initial term	317.5
Less unearned income	147.5
Present value of future lease receivable for initial term	170.0
Estimated residual value of leased property	20.7
Less unearned income on residual value	15.6
Net investment in capital lease	$175.1

Of the $175.1 million net investment in capital lease, approximately $170.5 million is in Investment in lease receivable, related party and $4.6 million is in Accounts and notes receivable, related parties as shown on the Consolidated Balance Sheets.

THE VONS COMPANIES, INC., JANUARY 1, 1989

The Vons Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

9. Related-Party Transactions

●●●●

Vons leases its San Diego warehouse from a California general partnership whose general partners are Vons and a Texas general partnership, of which a general partner is a Vons director. Vons and the Texas general partnership each have a 50% interest in the California general partnership. The lease requires $ 1.9 million annual rent over a 15-year term.

RELATED-PARTY LOANS AND ADVANCES

CALGENE, INC., SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

2. Investment in and Receivables From Affiliate

In fiscal 1986, the Company acquired for $364,000 a one-third common equity interest in Cal Pac, a newly formed Australia-based research and micropropagation company.

●●●●

In fiscal 1988, the Company invested approximately $91,000 and $151,000 in the common and preferred stock, respectively, of Cal Pac. The Company's combined common and preferred equity interest in Cal Pac is approximately 28% at September 30, 1988. In addition, the Company advanced approximately $385,000 to Cal Pac in exchange for an unsecured note receivable which bears interest at a bank's prime lending rate (approximately 10% at September 30, 1988) and matures in December 1989.

CANAVERAL INTERNATIONAL CORP., SEPTEMBER 30, 1988

Canaveral International Corp.
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

E. Property Leased to Others

In June 1984, Green Acres, Inc. (''Acres''), a wholly owned subsidiary of the Company.

●●●●

F. Investment in Joint Venture

In October 1987, Acres entered into an agreement with three other parties to organize a corporation (''Ventura'') for the purpose of acquiring and developing property and constructing approximately 600 mobile home sites in St. Lucie County, Florida. Acres owns 25% of the outstanding shares of Ventura and has disbursed as of September 30, 1988, $150,000 to Ventura; $25,000 as capital and $125,000 as a loan. Also in October 1988, Acres loaned Ventura an additional $80,000, and two other shareholders loaned Ventura a total of $130,000.

CHECK TECHNOLOGY CORPORATION, SEPTEMBER 30, 1988

Check Technology Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988

Note C. Related-Party Transactions

●●●●

At September 30, 1988, the Company had advanced $169,000 to its joint ventures to help finance their activities. As the Company's share of the joint ventures' losses exceeded the investment and advances made by $40,000, the Company has recorded an additional liability to reflect the guarantee made by the Company.

COMMERCE BANCSHARES, INC., DECEMBER 31, 1988

Commerce Bancshares, Inc. and Subsidiaries and Commerce Bancshares, Inc. (Parent)
Notes to Financial Statements

10. Transactions With Subsidiaries

The Parent makes advances to certain non-banking subsidiaries. Interest is charged on such advances based on interest rates paid by the Parent. The advances made by the Parent to the non-banking subsidiaries involved in real estate activities for the banking subsidiaries are non-interest bearing.

The Parent borrows operating funds as needed from a subsidiary bank, using investment securities as collateral. The interest rate fluctuates with prime on a daily basis. At December 31, 1988, the Parent had no short-term borrowings from the subsidiary.

INGERSOLL RAND COMPANY, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 4—Dresser-Rand Partnership: On December 31, 1986, the company and Dresser Industries, Inc., formed the Dresser-Rand Company, a 50/50 partnership comprising the worldwide reciprocating compressor and turbo-machinery businesses of the two companies. The partnership commenced operations on January 1, 1987.

In the fourth quarter of 1988, Dresser-Rand extended a $100 million short-term loan to the company with an annual interest rate of 10.5%. At December 31, 1988, the company owed Dresser-Rand $73 million whereas, at December 31, 1987, Dresser-Rand's advances from the company were $45 million.

ONEOK, INC., AUGUST 31, 1988

ONEOK Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(B) Investments

The Company is a 25 percent joint venture partner in two natural gas transmission systems: Ozark Gas Transmission System (Ozark) and Red River Pipeline (Red River).

The Company has guaranteed to advance cash, limited to its 25 percent interest, to each venture if cash deficiencies occur. Such cash advances can be recorded as either subordinated indebtedness or capital contributions. No cash advances were made during 1988 or 1987 to Ozark.

The Company advanced $1,660,000 to Red River in 1988 and $20,700,000 in 1987. The 1987 advances consisted of $2,300,000 in capital contributions and $18,400,000 in cash to retire short-term debt. This cash advance was expected to be repaid in 1988 and was originally recorded as a receivable in the 1987 financial statements. In 1988, the cash advance was reclassified as a capital

contribution and summarized 1987 financial information below has been reclassified to conform with the 1988 presentation.

TEXTRON, INC., DECEMBER 31, 1988

Textron Inc.
Notes to Consolidated Financial Statements

9. Debt and Credit Facilities

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Textron's finance subsidiaries: Avco Financial Services (AFS) and Textron Financial Corporation (TFC).

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Under operating agreements between Textron and TFC, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated borrowings at the prime rate and Textron has agreed to lend to TFC, interest free, an amount not to exceed the deferred income tax liability of Textron attributable to the manufacturing profit deferred on products manufactured by Textron and financed by TFC. Textron has also agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of fixed charges. No such payments were required for 1988, 1987 or 1986.

WALBRO CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt and Lines of Credit.

At December 31, 1988, 1987, and 1986, long-term debt consisted of the following:

	1988	1987	1986
		(In thousands)	
....	....	....	....
Other, interest rates which approximate prime or 5.5% to 12.0%, payable in varying amounts through 1998, secured by certain equipment	3,061	2,102	964
	$51,561	$19,902	$964
Less—Current portion	693	8	8
	$50,868	$19,894	$956

●●●●

Included in bank and other borrowings is an advance from one of the Company's joint ventures totaling $1,200,000 as of December 31, 1988. Interest on the advance is 9.6%.

CAPITAL STOCK TRANSACTIONS

CALGENE, INC., SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

2. Investment in and Receivables From Affiliate

In fiscal 1986, the Company acquired for $364,000 a one-third common equity interest in Cal Pac, a newly formed Australian-based research and micropropagation company. Australian investors purchased the remaining preferred equity interest in Cal Pac for approximately $3.2 million. Concurrent with these equity transactions, the Company sold 118,027 warrants to purchase its common stock (Note 7) to Cal Pac for approximately $363,000.

THE COCA-COLA COMPANY, DECEMBER 31, 1988

The Coca-Cola Company and Subsidiaries
Notes to Consolidated Financial Statements

3. Investments in and Advances to Affiliated Companies.

Columbia Pictures Entertainment, Inc.: On December 17, 1987, the Company combined substantially all of the assets and liabilities of its Entertainment Business Sector (EBS) with Columbia Pictures Entertainment, Inc. (CPE), formerly known as Tri-Star Pictures, Inc. (Tri-Star), in a transaction accounted for as a step purchase transaction with EBS treated as the acquiring entity for financial reporting purposes. On January 15, 1988, the Company distributed a special one-time dividend of approximately 34.1 million shares of CPE common stock totaling approximately $335 million. This special dividend, accounted for as a partial spin-off based on the Company's carrying value, reduced the Company's ownership interest in CPE to approximately 49 percent. On December 18, 1987, the Company purchased $100 million of CPE adjustable rate non-voting, non-convertible preferred. The consolidated balance sheet data as of December 17, 1987, reflects the issuance of $100 million of adjustable rate preferred stock which is owned by the Company.

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Coca-Cola Enterprises Inc.: On September 12, 1986, the Company transferred the operating assets of substantially all Company-owned bottling companies in the United States to Coca-Cola Enterprises Inc. (CCE), a wholly owned subsidiary.

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On November 21, 1986, CCE sold 71.4 million shares of its unissued common stock for net proceeds of approximately $1.12 billion. This transaction reduced the Company's ownership interest to 49 percent.

●●●●

CCE has initiated a share repurchase program for up to 25 million shares of its common stock. The Company intends to participate in such repurchase program and has entered into an agreement with CCE whereby the Company will sell a sufficient number of its CCE shares such that its continuing ownership interest will remain at approximately 49 percent. In connection with this agreement, in December 1988, the Company sold 5.3 million shares to CCE for aggregate proceeds of approximately $77 million. When CCE completes the purchase of the same number of shares from public shareholders, an adjusting payment will be made to or received from CCE for the difference between the aggregate proceeds paid to the Company and the aggregate proceeds paid to the public shareholders, net of commissions paid by CCE.

Other Significant Equity Investments:

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In June 1987, the Company acquired approximately 1.6 million common shares of previously unissued common stock of Coca-Cola Bottling Co. Consolidated (Consolidated) for approximately $63 million. In January 1989, the Company acquired an additional 1.1 million shares of Consoli-

dated common stock in exchange for 100 percent of the common stock of a bottling company, which had been accounted for as a temporary investment. Such shares increased the Company's ownership interest from 20 percent to approximately 30 percent.

In June 1987, the Company purchased 2,219 shares of previously unissued common shares of Johnston Coca-Cola Bottling Group, Inc. (Johnston) for approximately $54 million, which increased the Company's ownership interest to approximately 22 percent.

13. Acquisitions and Divestitures

In January 1988, the Company purchased The Coca-Cola Bottling Company of Memphis, Tennessee (Memphis CCBC) and subsequently sold Memphis CCBC and substantially all of the bottling operations of The Coca-Cola Bottling Company of Southern Florida, Inc. (Miami CCBC) to Coca-Cola Enterprises Inc. for approximately $500 million in cash plus the assumption of indebtedness, the total of which approximated the Company's carrying value. In December 1986, the Company acquired Miami CCBC for approximately $325 million less assumed debt and Coca-Cola bottling companies affiliated with Mr. Crawford Rainwater, Jr. (Rainwater Bottlers) for approximately $211 million less assumed debt. In July 1987, the Company sold a significant portion of the Rainwater Bottlers to Coca-Cola Enterprises Inc. for approximately $174 million.

COMBUSTION ENGINEERING, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
(dollars in thousands, except per-share amounts)

14. Investment in Vetco Gray Inc.

In November 1986, Hughes Tool Company (Hughes) acquired the Company's Vetco/Gray operations. These operations became part of a subsidiary (Vetco Gray Inc.) of which Hughes owned 80.1% of the common stock (VG Common Shares) and to which Hughes contributed its Hughes offshore operations. In exchange for the Vetco/Gray operations, the Company received 19.9% of the VG Common Shares, 2,955,878 shares of preferred stock (VG Preferred Shares) with an initial liquidation value of $50 per share (an aggregate of approximately $148,000) and $110,000 from bank borrowings made by Vetco Gray Inc. The investment in VG Preferred Shares and VG Common Shares is carried in the consolidated balance sheet at cost.

In 1988, Vetco Gray Inc. issued 20,000 additional VG Preferred Shares to the Company, valued at $1,000, as a settlement for various trade payables owed to the Company. The liquidation value of these shares is $50 per share redeemable on December 31, 2001.

ENDEVCO, INC., DECEMBER 31, 1988

Endevco, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

9. Transactions With Related Parties

In December, 1988, the Company, through a newly formed subsidiary, Dubach Gas Company ("Dubach"), purchased two gas processing/refining plants and certain gas gathering facilities for approximately $8.3 million.

Upon formation, Dubach issued 90,000 shares of its common stock (representing 90% of the total outstanding common stock of Dubach) to the Company for an aggregate purchase price of $750,000 in cash.

MIDLAND COMPANY, DECEMBER 31, 1988

The Midland Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

2. Marketable Securities

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Marketable equity securities held by the parent company are carried in the accompanying consolidated balance sheets at cost of $1,986,000 in 1988 and $1,950,000 in 1987. The cost includes $916,000 of unrealized gains on appreciated marketable equity securities purchased from an insurance subsidiary. The market value of these securities at December 21, 1988 and 1987 was $2,059,000 and $2,040,000, respectively.

TRANSACTIONS INVOLVING PRODUCTS OR SERVICES

AMERICAN PACIFIC CORPORATION, SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements

6. Investment in Partnership

At September 30, 1987, other assets include AMPAC Development's (a wholly owned subsidiary of the Company) investment in and receivables from Gibson Business Park Associates 86-1, a real estate development limited partnership (the "Partnership").

●●●●

AMPAC Development provides project-related management services and leased land to the Partnership. The Partnership capitalizes the fees related to such services during the project development phase. Profit on such services has been eliminated to the extent of AMPAC Development's 50% interest in the Partnership. Total fees and rent were $197,000, $263,000, and $241,000 in 1988, 1987 and 1986, respectively.

●●●●

Also in December 1988, the Partnership Agreement was amended. Under the terms of the amended agreement, Partnership is required to pay management fees of $38,000 in both 1988 and 1989 to AMPAC Development. AMPAC Development made its 1988 and 1989 contributions and the Partnership paid AMPAC Development its 1988 and 1989 management fees in December 1988. . . .

APPLIED POWER, INC., AUGUST 31, 1988

Notes to Consolidated Financial Statements
Years Ended August 31, 1988, 1987, and 1986

Note P. Investment in Hein-Werner Corporation

In connection with the Blackhawk Automotive Division sale (see Note O) the Company received 1,100,000 shares or 48% of the outstanding common stock of Hein-Werner Corporation.

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Sales to and purchases from Hein-Werner Corporation during the year ended August 31, 1988, and for the period from March 31, 1987 through August 31, 1987, aggregated $4,310,000 and $2,080,000, and $1,576,000 and $650,000, respectively. At August 31, 1988 and 1987, the consolidated balance sheets include accounts receivable of $1,226,000 and $1,390,000 and accounts payable of $270,000 and $350,000, respectively, from/to Hein-Werner Corporation.

ARK RESTAURANTS CORP., OCTOBER 1, 1988

Ark Restaurants Corp. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended October 1, 1988, October 3, 1987, and September 27, 1986

5. Intangible and Other Assets

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The Company, through a wholly owned subsidiary, became a general partner with a 19% interest in a partnership which acquired on July 1, 1987 an existing Mexican food restaurant, El Rio Grande, in New York City. Several related parties also participate as limited partners in the partnership.

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The Company also manages El Rio Grande through another wholly owned subsidiary on behalf of the partnership. Management fee income relating to these services approximated $422,000 and $168,000 in 1988 and 1987, respectively (Note 10).

CONGRESS STREET PROPERTIES, INC., AUGUST 31, 1988

Congress Street Properties, Inc.
Notes to Financial Statements

Note B. Investments in Real Estate Companies

Investments in real estate companies consist of the following:

	August 31, 1988 Direct Ownership Percentage	August 31, 1988 Quoted Market Value *(in thousands)*	
	Investment		
Equity method investees:			
The Parkway Company	30.5%	$12,755	$8,028
Citizens Growth Properties	22.3%	1,352	884
Rockwood National Corporation	9.5%	2,537	1,916
Eastover Bank for Savings	.1%	275	169
		$16,919	$10,997

●●●●

Note I. Related-Party Transactions

At March 1, 1984, the Company entered into an expense sharing agreement with Eastover, Parkway, Citizens, East-Group, EastPark, and Rockwood. Common administrative expenses are allocated monthly among the companies based on the total assets of each company reflected in their most

recent published financial statements. The amounts the Company has allocated to the other companies totalled $1,930,000 for 1988, $1,682,000 for 1987 and $1,700,000 for 1986. The Company's portion was $204,000 for 1988, $174,000 for 1987 and $169,000 for 1986. The Company had amounts receivable from the companies participating in the agreement totaling $17,000 at August 31, 1988 and $40,000 at August 31, 1987 representing one month's allocation of expenses. The Company had amounts payable to the participating companies totaling $327,000 at August 31, 1988.

EATON VANCE CORP., OCTOBER 31, 1988

Eaton Vance Corp.
Notes to Financial Statements
Years Ended October 31, 1988, 1987, and 1986

5. Investment in Investors Bank & Trust Company:

The Company owns 77.3% of the capital stock of Investors Bank & Trust Company (IB&T). IB&T, a state-chartered bank, provides custodial, trust, and other fiduciary services to investors, including individuals, employee benefit plans, corporations, and other institutions. IB&T also provides custodial, accounting, and pricing services for four mutual fund groups of which the Eaton Vance group is the largest.

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IB&T provides computer services to the Company for which it charged the Company approximately $404,000, $373,000, and $327,000 for the years ended October 31, 1988, 1987, and 1986, respectively.

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6. Investment in Ventures Trident, L.P. and Mining Related Subsidiaries:

The Company, through its wholly owned subsidiary, MinVen, Inc., has a 79% general partnership interest in Fulcrum Management Partners, L.P.(FMP) and an 82% general partnership interest in Fulcrum Management Partners II, L.P.(FMPII), both Delaware limited partnerships, of which a principal officer of the Company is the other general partner. FMP and FMPII are 20% general partners of Ventures Trident, L.P. (V.T.) and Ventures Trident II, L.P. (V.T.II), respectively, both Delaware limited partnerships formed to invest in the equity securities of public and private mining ventures. The Company also has a 12% limited partnership interest in V.T. and a 3% limited partnership interest in V.T.II. The Company, through its wholly owned subsidiary Fulcrum Management, Inc. (Fulcrum), provides management and administrative services to V.T. and V.T.II.

A. Mining-Related Subsidiaries

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For the years ended October 31, 1988, 1987, and 1986, Fulcrum received fees from V.T. and V.T.II totaling $2,778,905, $826,666, and $827,875, respectively, for management and administrative services.

JEFFERSON SMURFIT CORPORATION, DECEMBER 31, 1988

Jefferson Smurfit Corporation
Notes to Consolidated Financial Statements
December 31, 1988

Note C. Acquisitions

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September 30, 1986, the Company acquired 50% of the voting equity of Container Corporation of America (CCA).

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Note L. Related-Party Transactions

Transactions with CCA

Transactions with CCA were as follows (in thousands):

	1988	1987	Fourth Quarter 1986
Product sales to CCA	$60,972	$55,905	$3,542
Product purchases from CCA	79,102	59,472	7,404
General management services	11,480	11,080	2,750
Elective management services	34,330	34,699	2,280
Accounts receivable at December 31	13,740	10,649	8,991
Accounts payable at December 31	8,473	5,126	3,058

Net sales to CCA and product purchases from CCA were consummated on terms similar to those prevailing with unrelated parties.

Under terms of a Management Services Agreement (Agreement), the Company provides CCA general management services and elective management services which include, but are not limited to, management information services, accounting, tax and internal auditing services, financial management and treasury services, manufacturing and engineering services, research and development services, employee benefit plan management services, purchasing services, transportation services and marketing services. Elective services include a proportionate share of compensation paid to senior officers of the Company who are simultaneously senior officers of CCA. These services are similar to those being provided by the Company to its subsidiaries and other affiliates.

JSC receives management fees and reimbursement in consideration of the additional cost of managing CCA's operations. For the general management services, the Company receives an annual fee of $13,000,000, inclusive of an amount payable to an affiliate of JSC in respect of general management services provided to the non-U.S. operations of CCA. In 1988 and 1987, the portion paid to JSC's affiliate was $1,520,000 and $1,920,000, respectively. For elective services, the Company receives a fee determined by applying various formulas approved by the CCA Board of Directors to allocate costs incurred by JSC in connection with performing such elective services. In addition, out-of-pocket and other expenses incurred by the Company in CCA's behalf are reimbursed, which for 1988, 1987 and 1986, amounted to $1,344,000, $3,742,000 and $4,315,000, respectively. In October 1986, CCA prepaid the annual fee for general management services as provided for in the Agreement; the fee is presently prepaid by CCA on a quarterly basis.

THE NEWHALL LAND AND FARMING COMPANY, DECEMBER 31, 1988

The Newhall Land and Farming Company and Subsidiaries
Notes to Financial Statements
December 31, 1988

Note 4. Related-Party Transactions

On March 9, 1983, substantially all of the Company's developed commercial real estate assets and liabilities were distributed to Newhall Investment Properties and the Company's oil and gas assets and liabilities were distributed to Newhall Resources, both newly formed limited partnerships.

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The Company provided the partnerships with administrative services and a wholly owned subsidiary of the Company served as the transfer agent for the depositary receipts of the partnerships. An executive officer of the Company and a director of Newhall Management Corporation were general partners of the Managing General Partners of the partnerships.

A summary of significant related-party transactions follows:

	For the years ended December 31		
	1988	1987	1986
	(in thousands)		
Payments by the partnerships to the Company for:			
Administrative and transfer agent services	$424	$555	$591
Rent for office space	21	32	47
Payments by the Company to the partnerships for:			
Property management services	$ 54	$ 47	

The planned termination of Newhall Investment Properties was completed during 1988 and all of its remaining assets transferred to Newhall Investment Properties Liquidating Trust, which assumed all of its liabilities. Newhall Depositary Company, a wholly owned subsidiary of the Company, has been retained by the trust to provide management services for the remaining real property and negotiate for its sale.

RED EAGLE RESOURCES CORPORATION, SEPTEMBER 30, 1988

Red Eagle Resources Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(8) Related-Party Transactions

Contract drilling and oilfield services revenue is derived substantially from performing services for affiliated Drilling Partnerships.

In accordance with industry practice, the Company charges working interest participants a monthly fixed fee for each well that it operates to reimburse it for administrative costs incurred. Amounts charged to the Partnerships totaled approximately $1,079,000, $994,000, and $1,052,000 for 1988, 1987, and 1986, respectively.

During 1988, 1987, and 1986, the Company received $944,000, $1,008,000 and $634,000, respectively, from sponsored Partnerships representing one-time payments upon formation of the Partnerships to cover general and administrative costs.

PURCHASE OR SALE, OTHER

EMERALD HOMES, L.P., DECEMBER 31, 1988

Emerald Homes, L.P. (A Limited Partnership) and Subsidiaries
Notes to Consolidated Financial Statements
(Income Statement Information for the Year Ended December 31, 1986 Is Unaudited)

Note 5. Investment In Joint Ventures

The Company is a participant in unconsolidated home building and land development joint ventures with equity interests ranging from 50% to 55% which it does not control.

During 1988 and 1986, the Company purchased land from one joint venture at the joint venture's book value of $3,245,000 and $3,200,000, respectively.

GENESCO, INC., JANUARY 31, 1989

Genesco Inc. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

Note 2. Receivables

Genesco sells a substantial portion of its accounts receivable to Genesco Financial Corporation (GFC), a wholly owned consolidated subsidiary. The receivable amounts below include amounts sold to GFC as follows: 1989—$31,817,000; 1988 — $31,137,000.

INTEGRATED GENETICS, INC., DECEMBER 31, 1988

Integrated Genetics, Inc.
Notes to Financial Statements

Note C. Related-Party Transactions

The Company has made equipment sales of $433,576 to its joint venture, Security Document Printers, during the year ended September 30, 1988. During the year ended September 30, 1987, the Company made sales of $872,397 to its joint ventures, Check Promotions Partnership and Superior Printing Service. The gross margins realized on these sales were $146,817 and $286,892, respectively. Of these gross margins, $73,409 and $143,446 were deferred due to the Company's 50% ownership in these ventures. This deferred income is recognized on a pro rata basis over 60 months, the period over which the joint ventures depreciate the equipment purchased. During the years ended September 30, 1988 and 1987, $24,138 and $578, respectively, of the deferred margins were recognized as income.

Note H. Research, Development and Commercialization Joint Venture

In 1986, the Company entered into a joint venture agreement with Amoco Biotechnology Company ("Amoco") and formed GENE-TRAK Systems to research, develop, manufacture and sell clinical and food diagnostics based on nucleic acid-probe technology. GENE-TRAK purchased from the Company certain leasehold improvements, and furniture and technical equipment for $1 million in 1986 and $4 million in 1988.

JEFFERSON SMURFIT CORPORATION, DECEMBER 31, 1988

Jefferson Smurfit Corporation
Notes to Consolidated Financial Statements
December 31, 1988

Note C. Acquisitions

On September 30, 1986, the Company acquired 50% of the voting equity of Container Corporation of America (CCA).

Note L. Related-Party Transactions

Transactions with CCA

During 1988, the Company closed two plant facilities and sold the business to CCA for approximately $19,500,000. In 1987 the Company closed two plant facilities and sold the business to CCA for approximately $4,200,000.

LEGGETT & PLATT, INCORPORATED, DECEMBER 31, 1988

Leggett & Platt, Incorporated and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

C. Investment in Associated Companies

In July, 1986, the Company entered into an agreement with Pacific Dunlop Limited (Dunlop), a publicly owned Australian company, concerning the joint operation of certain of the Company's polyurethane foam plants. Under the terms of the agreement, which became effective in October, 1986, the Company had a 50% interest in a new partnership (L & P Foam). Pacific Foam Corporation (Pacific), a subsidiary of Dunlop, was the other 50% partner. The partnership acquired the Company's three Urethane Foam Division plants and leased the related operating equipment. With the sale of these plants, the Company realized a pre-tax gain of approximately $6,800,000 (approximately $5,000,000, net of tax) in 1986. Half of this gain, the portion attributable to outside interests, was recognized by the Company and included in other income in 1986. The remaining one-half of the gain was deferred and was being amortized to income over the estimated remaining lives of the urethane plants.

MERCANTILE STORES COMPANY, INC., JANUARY 31, 1989

Notes to Consolidated Financial Statements

2. Financing Arrangements

The Company's wholly owned subsidiary, Mersco Finance Corporation (Mersco), has a revolving credit agreement with Citibank pursuant to which the bank will lend up to $175,000,000 at a cost no higher than the bank's prime rate. All borrowings under this agreement will be evidenced by secured notes payable upon termination of the agreement, or earlier at the option of Mersco, with the collateral for such notes being a security interest in the Company's customer receivables. This revolving credit agreement has a five-year term but can be canceled by Mersco on sixty days' written notice.

The Company sells its customer receivables to Mersco, which assigns these receivables to Citibank, without recourse, as security for any borrowings under the revolving credit agreement. In addition, Mersco and the Company's operating divisions have an agreement pursuant to which an affiliate of Citibank (the Service Company) manages and services the private label credit card program of the Company. This includes the collection of all receivables arising from the use of private label credit cards. Mersco pays the operating divisions for these receivables when Mersco receives payment from the Service Company or on demand by the operating divisions. When such a demand is made prior to payment by the Service Company, Mersco borrows the funds from Citibank under the revolving credit agreement. In this way, Mersco provides sizable levels of seasonal working capital funding to the Company.

The following are summary balance sheets for Mersco Finance Corporation:

	January 31	
	1989	1988
	(in thousands)	
Assets		
Customer receivables purchased from Mercantile Stores Company, Inc.	$587,295	$566,773
Other receivables	19,933	7,143
Cash	3	3
Total assets	$607,231	$573,919
Liabilities and stockholder's equity due to Mercantile Stores Company, Inc.	$584,768	$554,111
Other liabilities	33	35
Stockholder's equity	22,430	19,773
Total liabilities and stockholder's equity	$607,231	$573,919

THE NEWHALL LAND AND FARMING COMPANY, DECEMBER 31, 1988

The Newhall Land and Farming Company and Subsidiaries
Notes to Financial Statements
December 31, 1988

Note 4. Related-Party Transactions

On March 9, 1983, substantially all of the Company's developed commercial real estate assets and liabilities were distributed to Newhall Investment Properties and the Company's oil and gas assets and liabilities were distributed to Newhall Resources, both newly formed limited partnerships.

The Company purchased certain real estate properties from Newhall Investment Properties for aggregate purchase prices of $3.8 million and $2.5 million during 1988 and 1987, respectively. These transactions were reviewed by an independent committee of the Board of Directors. The purchase prices were each based on the average of two independent appraisals, one obtained by the Company and one by Newhall Investment Properties.

The planned termination of Newhall Investment Properties was completed during 1988, and all of its remaining assets transferred to Newhall Investment Properties Liquidating Trust, which assumed all of its liabilities. Newhall Depositary Company, a wholly owned subsidiary of the Company, has been retained by the trust to provide management services for the remaining real property and negotiate for its sale.

On January 31, 1989, unit holders of the Company approved the acquisition of the assets and assumption of substantially all of the liabilities of Newhall Resources for $28.7 million. The acquisition will be accounted for as a purchase under Accounting Principles Board Opinion No. 16. The Company does not anticipate any goodwill to be recorded on the purchase. Revenues and net income for Newhall Resources amounted to $5,722 and $2,392, respectively, for the year ended December 25, 1988.

13. Restructuring Income (Expense)

The gain on disposal of properties and equipment in 1988 included a gain of $783,000 from the sale of certain equipment to a corporation in Thailand of which the Company has a minority interest.

III

TRANSACTIONS BETWEEN THE REPORTING ENTERPRISE AND AN ENTERPRISE THAT CONTROLS OR SIGNIFICANTLY INFLUENCES IT

A transaction between the reporting enterprise and an enterprise that controls or significantly influences it is a related-party transaction under SFAS 57. Fifty-five examples are presented in this chapter of disclosures between such related parties. The examples are classified according to the type of transaction that occurred.

LOAN OR DEBT GUARANTEES

AMERICAN PETROFINA, INCORPORATED

American Petrofina, Incorporated and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988

(1) Summary of Significant Accounting Policies

(a) General. Class A and Class B common stock are identical in all respects except Class B stockholders elect one more than a majority of the members of the Board of Directors of the Company. Class A stockholders are entitled to elect the remaining members of the Board of Directors. Petrofina Delaware, Incorporated (PDI) owns 100% of the Class B common stock and owned approximately 84% of the Class A common stock at December 31, 1988.

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(11) Related-Party Transactions

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The Company has guaranteed PDI's financial responsibility to the U.S. Coast Guard for accidents resulting from offshore operations up to $35,000,000. PDI pays the Company an annual guaranty fee of 1/4 of 1% of the guaranteed amount and has agreed to reimburse the Company for any losses resulting from such guarantee.

FREEPORT-MCMORAN ENERGY PARTNERS, LTD., DECEMBER 31, 1988

Freeport-McMoRan Energy Partners, Ltd.
Notes to Financial Statements

1. Organization and Control

Freeport-McMoRan Energy Partners, Ltd. (FMP), a Texas Limited Partnership, succeeded in April 1985 to substantially all the domestic oil and gas exploration, development and production activities previously conducted by McMoRan Oil & Gas Co. (McMoRan), a wholly owned subsidiary of Freeport-McMoRan Inc. (FTX), coincident with an initial public offering of FMP units. McMoRan and FTX are the general partners of FMP, with McMoRan serving as managing general partner and FTX serving as special general partner.

Since the public offering, FTX has acquired additional FMP units through reinvestment of the distributions received by it and McMoRan (Note 4) and from certain capital contributions. . . .These reinvestments have allowed and will continue to allow FTX to retain a significant FMP ownership interest.

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5. Long-Term Debt

Long-term debt (which includes nonrecourse production advances), including short-term borrowings expected to be refinanced and to remain outstanding for more than one year, was composed of the following:

	December 31	
	1988	1987
Note due 1996—$74 million with a 10 5/8% stated interest rate, guaranteed by FTX and discounted to an effective interest rate of 12%	$70,151	$69,601
. . . .	. . . .	. . . .
Revolving credit loans, average interest rate 8 5/8% in 1988 and 9% in 1987	35,000	82,000
. . . .	. . . .	. . . .

As of November 3, 1988, FTX and certain of its affiliates, including FMP, entered into a new credit agreement (Credit Agreement) which replaced the previous credit facility that was entered into in December 1986. The Credit Agreement, with substantially all the banks from the previous credit facility, has terms similar to the previous agreement except that it provides a larger credit facility ($1 billion) and extended repayment terms. Under the Credit Agreement, the revolving credit facility is operative until December 31, 1992, and then converts to a term loan amortizing on a quarterly basis through December 31, 1995. As of December 31, 1988, the amount available under the Credit Agreement was $652.9 million.

Interest on borrowings under the Credit Agreement is based on the prime commercial lending rate or various market rates at FMP's election. FTX guarantees any borrowings under the Credit Agreement that are made by the affiliates. Under certain circumstances FTX could be required to pledge a portion of the FMP units owned by it and could be required to grant a security interest in its assets to secure the outstanding borrowings.

The Credit Agreement contains provisions regarding working capital requirements, coverage of fixed charges and restrictions on other borrowings. FTX, FMP and affiliates have complied with all restrictions and limitations included in the Credit Agreement.

JEFFERSON SMURFIT CORPORATION, DECEMBER 31, 1988

Jefferson Smurfit Corporation
Notes to Consolidated Financial Statements
December 31, 1988

Note A. Significant Accounting Policies

Principles of Consolidation: . . .The Company is 77.4% indirectly owned by Jefferson Smurfit Group plc, a Republic of Ireland corporation (JS Group).

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Note E. Long-Term Obligations

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The JS Group guaranteed approximately $42,000,000 and $54,271,000 of the Company's long-term obligations, including current maturities as of December 31, 1988 and 1987, respectively (See Note L).

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PLANTATION PIPE LINE COMPANY, DECEMBER 31, 1988

Plantation Pipe Line Company
Notes to Financial Statements

Note 3. Long-Term Debt and Notes Payable:

	December 31	
	1988	1987
Thirty-year 4-½% guaranteed notes due February 1, 1994	$ 6,300,000	$ 7,450,000
Thirty-year 7% guaranteed notes due February 1, 1999	28,875,000	31,625,000
Thirty-year 7-⅞% guaranteed notes due October 1, 2001	33,800,000	36,400,000
. . . .	. . . .	. . . .

The 4-½%, 7% and 7-⅞% Notes are severally guaranteed by Exxon Corporation, Chevron Corporation and Shell Oil Company on a pro rata basis equivalent to the respective ownership interests of their wholly owned subsidiaries in the Company. Under terms of each of these note agreements, the Company is restricted as to liens, debts, leases and contracts which it may incur or enter into. These agreements require semi-annual payments from the dates shown to maturity as follows:

4-½% Notes - $575,000, beginning February 1, 1971
7% Notes - $1,375,000, beginning August 1, 1979
7-⅞% Notes - $1,300,000, beginning April 1, 1982

ROADMASTER INDUSTRIES, INC., DECEMBER 31, 1988

Roadmaster Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988 and 1987

(12) Related-Party Transactions

Equitex is a major stockholder of the Company.

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The President of the Company and Equitex had guaranteed certain indebtedness of Roadmaster as required by the Lending Arrangement entered into by Roadmaster on August 10, 1987. Equitex has also guaranteed the Company's (but not Roadmaster's) financial obligations until at least January 31, 1989.

TACO VILLA, INC., DECEMBER 28, 1988

Taco Villa, Inc.
Notes to Consolidated Financial Statements

Note 1. Organization and Significant Transactions:

Taco Villa, Inc. ("TVI") and its subsidiaries (collectively, the "Company") operate. . . A subsidiary of W.R. Grace & Co. ("Grace") owned 81.8% of the outstanding common stock of TVI at December 28, 1988.

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Note 5. Property and Equipment:

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Capitalized leases relate to the building portions of certain restaurant properties; the land portions of these leases are accounted for as operating leases. Property under capitalized leases amounted to $10,766,000 and $11,507,000 at the end of 1988 and 1987, respectively, and is included in property and equipment. Accumulated amortization of property under capitalized leases amounted to $4,129,000 and $3,713,000 at the end of 1988 and 1987, respectively.

The majority of the Company's leases have initial terms of 25 years and are currently in the first halves of their respective initial terms. At December 28, 1988, the present value of minimum lease payments on capitalized leases and the future minimum lease payments on noncancelable operating leases were:

Year	Capitalized Lease Payments	Operating Lease Payments
	(in thousands)	
1989	$ 1,468	$ 1,592
1990	1,468	1,592
1991	1,468	1,594
1992	1,446	1,583
1993	1,406	1,567
Thereafter	13,517	15,740
Total future minimum lease payments	$20,773	$23,668
Interest	(10,728)	
Present value of future minimum lease payments	$10,045	

Rental expense for 1988, 1987 and 1986 was $1,592,000, $2,232,000, and $2,690,000, respectively. Contingent rent, principally rental overages based on sales, was immaterial.

Most leases have renewal options and contain provisions requiring the Company to pay insurance and property taxes. A substantial portion of the Company's lease obligations is guaranteed by Grace.

THERMEDICS, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Relationship With Thermo Electron. Thermedics, Inc. (the Company) was incorporated in 1983 as a wholly owned subsidiary of Thermo Electron Corporation (Thermo Electron). . . As of December 31, 1988, Thermo Electron owned 10,909,000 shares of the common stock of the Company, representing approximately 65% of such stock outstanding.

7. Long-Term Obligations

On April 1, 1986, the Company issued and sold $30,000,000 of 5 1/2% convertible subordinated debentures due in 1996. The debentures are convertible into shares of the Company's common stock at $11.58 per share, and are guaranteed on a subordinated basis by Thermo Electron. Debentures amounting to $768,000 in 1988, $10,513,000 in 1987, and $5,320,000 in 1986 were converted into shares of the Company's common stock. On March 3, 1988, the Company repurchased $6,677,000 of these debentures for $1,136,000 in cash and 576,300 shares of the Company's common stock valued at $4,807,000. As a result of this transaction, the Company recorded an extraordinary gain of $317,000 (net of related income taxes of $220,000).

11. Subsequent Events

In January 1989, the Company's wholly owned subsidiary, Thermo Cardiosystems Inc. (TCI) completed an initial public offering of 1,900,000 shares of common stock at $8.50 per share. Holders of the common stock purchased in the offering will have the right to require TCI to redeem any or all of their shares during redemption periods at the end of 1991, 1992, and 1993. The redemption payments have been guaranteed, on a subordinated basis, by Thermo Electron. Following the offering, Thermedics owns 59% of TCI's outstanding common stock. Proceeds, net of offering expenses, were approximately $14,300,000.

WESTINGHOUSE CREDIT CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Consolidation. Westinghouse Credit Corporation (Westinghouse Credit) is the principal finance subsidiary of and is wholly owned by Westinghouse Financial Services, Inc. (WFSI), which is wholly owned by Westinghouse Electric Corporation (Westinghouse).

Note 6. Transactions With Affiliates

Westinghouse has guaranteed the principal and interest on certain Westinghouse-related transactions financed by Westinghouse Credit. The amount of these guarantees at December 31, 1988 was $26.3 million.

INCOME TAX CONSOLIDATED RETURN

AMERICAN CAPITAL MANAGEMENT & RESEARCH, INC., DECEMBER 31, 1988

American Capital Management & Research, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Organization and Business

American Capital Management & Research, Inc. is an 83%-owned subsidiary of Associated Madison Companies, Inc. ("Associated Madison" or "Parent Company").

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6. Income Taxes

Under an income tax allocation arrangement with Associated Madison, the Company has been allocated current Federal income taxes in an amount equal to the taxes that would have been currently payable or receivable if the Company had filed a separate tax return. The Company's liability of $683,000 and $3,312,000 as of December 31, 1988 and 1987, respectively, for its portion of such currently payable income taxes is included in payables to related parties.

AMERICAN PETROFINA, INCORPORATED, DECEMBER 31, 1988

American Petrofina, Incorporated and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988

(1) Summary of Significant Accounting Policies

(a) General. Class A and Class B common stock are identical in all respects except Class B stockholders elect one more than a majority of the members of the Board of Directors of the Company. Class A stockholders are entitled to elect the remaining members of the Board of Directors. Petrofina Delaware, Incorporated (PDI) owns 100% of the Class B common stock and owned approximately 84% of the Class A common stock at December 31, 1988.

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(5) Income Taxes

The Company files a consolidated Federal income tax return with PDI and its affiliates. Under the terms of the tax sharing agreement with PDI, the Company is allocated Federal income taxes on a separate return basis.

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(11) Related-Party Transactions

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Accounts receivable include. . . $8,167,000 and $15,525,000 at December 31, 1988 and 1986, respectively, which was the estimated receivable from PDI pursuant to the tax sharing agreement discussed in note 5.

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APPALACHIAN POWER COMPANY, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

6. Federal Income Taxes:

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The Company and its subsidiaries join in the filing of a consolidated federal income tax return with their affiliated companies in the AEP System. The allocation of the AEP System's consolidated federal income tax to the System companies is in accordance with Securities and Exchange Commission (SEC) rules under the Public Utility Holding Company Act of 1935. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to such losses in determining taxes currently payable. The tax loss of the System parent company, American Electric Power Company, Inc., is allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the method of allocation approximates a separate return result for each company in the consolidated group. Consolidated investment tax credits utilized are allocated to the System companies giving rise to them.

FIREMAN'S FUND CORPORATION, DECEMBER 31, 1988

Fireman's Fund Corporation
Notes to Consolidated Financial Statements

13. Related-Party Transactions

Prior to October 1985, FFC was a wholly owned subsidiary of American Express. In October 1985, American Express sold a majority of its ownership to the public. In 1988, FFC repurchased 8.5 million shares of FFC Common Stock held by American Express (see Note 9). American Express now owns approximately 20 percent of FFC's outstanding common stock which represents 16.5 percent in outstanding voting rights.

As part of a tax sharing procedure and tax allocation and indemnity agreement between American Express and FFC for the years in which FFC was included in a consolidated tax return with American Express, FFC paid American Express $9 million in 1988, and received $1 million and $20 million in 1987 and 1986, respectively, from American Express.

KAY JEWELERS, INC., DECEMBER 31, 1988

Kay Jewelers, Inc.
Notes to Consolidated Financial Statements

Note 4. Income taxes

The Company and Balfour Maclaine (the Company's former parent) have a tax sharing agreement which provides, among other things, that the Company's tax obligations will be determined on a separate company basis. Balfour Maclaine is required to pay the Company the benefit of the Company's tax net operating losses used in Balfour Maclaine's consolidated tax returns prior to the spin-off to the extent that the Company utilizes such tax net operating losses on a separate return basis. As an alternative to an immediate cash payment to the Company when otherwise due, Balfour Maclaine may, at its option, issue its debt obligation to the Company for the amount of the payment. Any such debt obligation would have a maturity of up to five years and bear interest at the prime rate in effect on the issue date plus one-half of one percent. At December 31, 1988, the Company has recorded a receivable from Balfour Maclaine of $3,700,000 of which $531,000 is evidenced by a note due in 1993 with interest at 10 ½%, pursuant to this agreement.

In 1988, the Company utilized its remaining separate return basis net operating loss and investment tax credit carryforwards, as discussed above, for federal income tax purposes. The benefits of separate return net operating losses will be recovered pursuant to the tax sharing agreement with Balfour Maclaine.

RAMADA HOTEL GROUP, DECEMBER 29, 1988

Notes to Financial Statements

Income Taxes

Ramada files consolidated federal and state income tax returns with all of its wholly owned subsidiaries, including all of the domestic subsidiaries within the Hotel Group, and has elected not to allocate domestic income tax expense to the Hotel Group. Foreign income taxes arising from activities of the Hotel Group are recorded by the Hotel Group.

TRANS WORLD AIRLINES, INC., DECEMBER 31, 1988

Trans World Airlines, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

6. Income Taxes:

TWA and its subsidiaries will file a consolidated federal income tax return with its parent company (for the calendar year ended December 31, 1988) and has entered into a tax sharing agreement (Agreement) with its parent. For purposes of the Agreement, TWA's income tax expense (benefits) for the two months ended December 31, 1988 and the ten months ended October 31, 1988 were computed as if a Federal income tax return would be filed on a separate company basis by TWA.

The Agreement provides, among other things, that the amount of tax liability incurred or benefit derived, as determined under the separate tax return basis, is paid to or received from the parent company with respect to the tax year when such liability or benefit would have arisen. If certain payments made by TWA to its parent for its Federal tax liability as computed on a separate company tax return basis include amounts which are based on income which is not currently taxable on a consolidated basis, the parent company has agreed to make a capital contribution to TWA in an amount equal to the interest which would have accrued during the period commencing on the date that TWA remitted such tax to its parent and ending on the date that such tax payment is due under consolidated Federal tax return regulations. The computation of the capital contribution will be based on sixty percent of the interest rate used by the Internal Revenue Service to calculate interest charges for the underpayment of income taxes.

In December 1988, TWA remitted approximately $43,000,000 of the estimated 1988 tax liability to its parent company. The estimated tax payment remitted by its parent company to the Internal Revenue Service was only $10 million primarily because the realized gain derived by TWA on TWA's sale of Texaco stock to its parent is not currently taxable under the consolidated tax regulations.

UNION TEXAS PETROLEUM HOLDINGS, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
(dollars in thousands unless otherwise indicated)

Note 1. Organization and Summary of Significant Accounting Policies

Organization.

In 1985, two limited partnerships (the "KKR Partnerships") organized and controlled by an affiliate of Kohlberg Kravis Roberts & Co. ("KKR") purchased approximately 50% of the common stock of the Company from a predecessor of Allied-Signal Corporation ("Allied"), who had previously owned 100% of the stock of the Company. At December 31, 1988, the KKR Partnerships and

Allied each own approximately 40% of the Company's issued and outstanding common stock. In addition, Allied owns all of the outstanding Series B and C preferred stock and common stock warrants.

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Note 8. Income Taxes

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In connection with the 1985 sale of 50% ownership in the Company, Allied and the Company entered into a tax agreement (the "Tax Agreement"), which allocates certain tax liabilities, benefits and credits between Allied and the Company. Under the Tax Agreement, the Company is liable for its share of the taxes included in Allied's U.S. consolidated tax return for the period from January 1, 1985, to July 2, 1985, and Allied is liable for all federal income taxes for all taxable periods prior to January 1, 1985. The Company will make a payment to Allied, in consideration of Allied accepting such liability, of $5.6 million in 1989 and $32.5 million in 1990. Allied is also liable for foreign and state income taxes of the Company for period ending prior to January 1, 1985, in excess of $13 million and $10.7 million, respectively, and for federal, state and foreign income taxes that may be imposed on the Company as a result of the sale of ownership.

LEASE ARRANGEMENTS

ALC COMMUNICATIONS CORPORATION, DECEMBER 31, 1988

ALC Communications Corporation and Consolidated Subsidiary
Notes to Consolidated Financial Statements

Note E. Network Consolidation and Systems Restructuring

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During 1988, the Company committed to convert the remainder of its analog equipment and transmission capacity to digital in order to further enhance network quality and increase support service capabilities. As part of the plan for a uniform digital network switching environment, the Company provided for conversion expenses and the elimination of obsolete analog multiplex and redundant analog ancillary equipment. Accordingly, during the year ended December 31, 1988, the Company recorded an additional provision of $7,211,000. This provision is net of the relief of a $6,398,000 obligation under a long-term analog equipment lease with CTI, a major shareholder. As part of the renegotiation of transmission contracts with CTI to exchange analog for digital facilities, the Company has agreed to revised pricing and extended contract terms.

ALFA CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

3. Related-Party Transactions

Mutual owns 38.68% . . .of the Company's common stock.

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The Company's consumer finance and leasing subsidiary leases equipment, automobiles, furniture and other property to the Mutual Group. The Mutual Group paid $2,147,017 in 1988, $2,048,883 in 1987 and $1,441,525 in 1986 under these leases.

●●●●

13. Operating Leases

Financial's leases to Mutual and its affiliates are operating leases. The lease terms range from two to five years with fixed rental payments. Total rental income for the years ended December 31, 1988, 1987 and 1986 was approximately $2,362,000, $2,182,000, and $1,561,000, respectively. The cost and net book value of major classes of property on lease at December 31, 1988 were:

	Cost	Net Book Value
Transportation equipment	$ 5,833,407	$ 3,814,236
Other	5,249,818	3,716,171
	$11,083,225	$ 7,530,407

At December 31, 1988, the aggregate minimum rental payments to be received under leases having initial or remaining lease terms in excess of one year are $2,441,578 in 1989, $1,837,202 in 1990, $1,038,080 in 1991, $874,754 in 1992, and $694,562 in 1993, or a total of $6,886,176.

ATLANTIC SOUTHEAST AIRLINES, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
December 31, 1988

Note J. Related-Party Transactions

During 1986, Delta Air Lines, Inc. purchased 2,665,000 shares of the Company's stock. The Company leases reservation equipment and certain terminal facilities from this shareholder and the shareholder provides certain services to the Company, including reservation and ground handling services. Expenses paid to the shareholder under these agreements were approximately $4,700,000 in 1988 and $3,000,000 in both 1987 and 1986.

ERBAMONT, N.V., DECEMBER 31, 1988

Erbamont, N.V.
Notes to Consolidated Financial Statements
(Italian Lire in millions, U.S. dollars in thousands, except per-share data)

Note 1. Summary of Significant Accounting Policies

Basis of Financial Statements. . . .The assets and liabilities of Erbamont result entirely from ownership interests in certain pharmaceutical and health care operations which were transferred to Erbamont from Montedison S.p.A. and its subsidiaries ("Montedison") on or before June 14, 1983. As of December 31, 1988, Montedison owned approximately 72 percent of the Company's outstanding shares.

Note 12. Transactions With Related Party

Under terms of a formal lease agreement between Montedison and the Company, Montedison leased an office building owned by the Company. In June 1987, this building was sold to an unrelated party. Rental income of L. 2,100 and L. 1,050 was included in other income for the years 1986 and 1987, respectively.

THE HANOVER INSURANCE COMPANY, DECEMBER 31, 1988

The Hanover Insurance Company and Subsidiaries
Notes to Consolidated Financial Statements

10. Related-Party Transactions:

The only person or entity who, on December 31, 1988, owned of record, or to the knowledge of the Company, owned beneficially, more than 10% of the outstanding stock, was State Mutual Life Assurance Company of America (State Mutual), Worcester, Massachusetts, owning 10,571,100 shares, (51.2%), of the outstanding capital stock.

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Hanover and Citizens lease office space from State Mutual. The estimated annual lease cost is $2,862,000. The lease provides for adjustments, if necessary, at five year intervals during the 25-year term of the lease.

ONEITA INDUSTRIES, INC., SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements

(1) Summary of significant accounting policies:

Basis of presentation—In October 1984, the Company was acquired by a wholly owned subsidiary of Instrument Systems Corporation ("ISC"), for approximately $14,000,000.

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(5) Transactions With ISC:

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The Company occupies approximately 6,000 square feet of office space for its New York sales office in a building owned by a subsidiary of ISC. Effective October 1, 1987, the Company has entered into a lease agreement with ISC for its New York office which provides for annual rent of $120,000 through September 30, 1990 with an adjustment to fair market value at that time for an additional two-year period. In the opinion of management of the Company, this lease agreement provides for rental charges not in excess of what would be payable to an independent party. The pro forma adjustments include a charge of $120,000 for rent on this space in 1986 and 1987.

(7) Commitments and contingencies:

The Company and its subsidiaries rent real property and equipment under long-term operating leases expiring at various dates through 1995. Most of the real property leases have escalation clauses relating to increases in real property taxes. Substantially all of the equipment leases have ISC as the primary obligor, with the equipment subleased to the Company on the same terms as ISC's lease.

Future minimum payments under noncancelable operating leases consisted of the following at September 30, 1988:

1989	$1,512,000
1990	1,481,000
1991	1,471,000
1992	1,514,000
1993	1,276,000
Later years	1,160,000
	$8,414,000

Rent expenses for all operating leases total approximately $1,367,000, $1,043,000, and $487,000 for the years ended September 30, 1988, 1987, and 1986, respectively.

TGI FRIDAY'S, INC., JANUARY 2, 1989

TGI Friday's Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization and Business. TGI Friday's Inc. and Subsidiaries (the "Company") is a subsidiary of Carlson Hospitality Group, Inc., a subsidiary of Carlson Companies, Inc. ("Carlson"). Carlson effectively owns 80% of the shares outstanding as of January 2, 1989.

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Note 6. Leases

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During fiscal 1988, 1987 and 1986, the Company made restaurant lease payments to Carlson or the limited partnership in which Carlson is the general partner of $796,000, $775,000, and $764,000, respectively.

WESTMORELAND COAL COMPANY, DECEMBER 31, 1988

Westmoreland Coal Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

9. Transactions With Affiliated Companies

The Company leases coal lands from Penn Virginia Resources Corporation, a wholly owned subsidiary of Penn Virginia Corporation, owner of a 19.6% equity interest in the Company at December 31, 1988. Amounts paid to Penn Virginia Resources for royalties on coal were $9,348,000, $10,898,000 and $11,910,000 for the years ended December 31, 1988, 1987 and 1986, respectively.

LOANS AND ADVANCES

BHA GROUP, INC., SEPTEMBER 30, 1988

BHA Group, Inc., and Subsidiary, Kansas City, Missouri
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

(1) Summary of Significant Accounting Policies

Basis of Presentation. On July 11, 1986, BHA Group, Inc. (BHA) was incorporated and effective July 31, 1986, the assets and liabilities of the Baghouse Accessories Division of Standard Havens, Inc. (Standard Havens) were transferred to BHA at predecessor cost in exchange for 1,000 shares of its common stock (see note 2). The initial contributed capital of BHA of $4,300,000 was comprised of the par value of the shares issued to Standard Havens and the permanent capitalization of a portion of the intercompany advance from Standard Havens.

●●●●

(6) Related-Party Transactions

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The following is a summary of other transactions with Standard Havens:

	1988	1987	1986
....	....	....	....
Allocation of interest expense from Standard Havens			505,000
Average interest rate on Standard Havens advances			9.1

●●●●

Interest expense charged to BHA by Standard Havens was determined by the average advance of Standard Havens to BHA multiplied by the prime interest rate. For purposes of computing interest expense, advances from Standard Havens represented the intercompany account balance due Standard Havens less the permanent capitalization of the intercompany account by Standard Havens. The permanent capitalization of the intercompany account was adjusted each year to reflect the net earnings of BHA. In addition, interest was not computed on certain charges, primarily income tax expense, which previously were included in the intercompany account balance. During 1988 and 1987 there were no advances from Standard Havens.

CONVERGENT SOLUTIONS, INC., SEPTEMBER 30, 1988

Convergent Solutions, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years Ended September 30, 1988, 1987, and 1986

11. Related-Party Transactions:

In November 1988, T.H. Lehman and Co., Incorporated ("Lehman") advised the Company in an amendment to a Schedule 13D dated April 12, 1988 that Lehman was a member of a group of five persons which as of November 9, 1988 owned an aggregate of 1,305,000 shares of Common Stock and warrants to purchase 1,769,100 additional shares, 1,500,000 shares at an exercise price of $3.125 per share and 269,100 shares at an exercise price of $3.00 per share.

●●●●

In June 1988, the Company borrowed from Lehman $1,500,000 to finance a purchase of common stock from a third party, $1,000,000 of which was repaid in June 1988 and the balance of which was repaid with interest of $10,000 on July 18, 1988.

FOODMAKER, INC., OCTOBER 2, 1988

Foodmaker, Inc. and Subsidiaries
Notes to Financial Statements
(dollars in thousands)

12. Related-Party Transactions

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Prudential Purchasers. The Company had outstanding borrowings aggregating $126,000 from the Prudential Insurance Company of America and other institutional investors ("Prudential Purchasers") which hold approximately 30% of the outstanding common stock of the Company at October 2, 1988. In May 1988, concurrent with the Chi-Chi's acquisition, the Company restructured its indebtedness and prepaid the $90 million senior subordinated notes due 1997 together with a prepayment charge of $12.6 million. Pursuant to such borrowings, the Company expensed interest aggregating approximately $13,444, $17,700 and $16,600 during 1988, 1987 and 1986, respectively.

PAPER CORPORATION OF AMERICA, SEPTEMBER 30, 1988

Paper Corporation of America and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Business and Basis of Presentation: Paper Corporation of America ("the Company"), a subsidiary of Alco Standard Corporation ("Alco"), is . . . .

Note 4. Relationship With Alco Standard Corporation

The Company participates in Alco's working capital cash management system. Under this program, the Company has accounts with Alco wherein cash temporarily in excess of current operating requirements earns interest at a rate approximating Alco's external borrowing costs. Interest received on these deposits totaled $9,471,000, $7,716,000 and $5,145,000 in 1988, 1987 and 1986, respectively. The Company may also borrow from Alco to meet working capital needs under the arrangement. The net balances under the system at September 30, 1988 and 1987 are classified as current receivables in the accompanying consolidated balance sheets. Alco has indicated its intention and ability to make these balances available, essentially on a demand basis, to the extent funds are required by the Company. At September 30, 1988, Alco had cash and cash equivalents of approximately $37,000,000 and lines of credit available to provide such funding.

In addition, under the Alco acquisition policy, the Company has borrowed amounts from a wholly owned subsidiary of Alco in connection with the acquisitions of Alltac and GENtech in 1988 and Unijax in 1986. The notes supporting this debt, classified as noncurrent in the balance sheet, bear interest payable once a year at an annually determined rate (8% in 1988 and 1987) and have no specified maturity or repayment schedules.

STERLING CHEMICALS, INC., SEPTEMBER 30, 1988

Sterling Chemicals, Inc.
Notes to Financial Statements
(dollars in thousands except per-share data)

4. Long-Term Debt:

Long-term debt consisted of the following:

	September 30	
	1988	1987
Senior Debt:		
Revolving debt	$41,585	$ —
Project loan	51,607	55,837
Total senior debt	93,192	55,837
. . . .	. . . .	. . . .

Senior Debt

On August 1, 1986, the Company entered into a credit agreement with a syndicate of banks. The agent bank, The Chase Manhattan Bank, N.A., has an affiliate which owns 4.8% of the outstanding common stock of the Company. The credit agreement permits the Company to borrow up to $131,607, which consists of an outstanding project loan of $51,607 and a revolving credit line of up to $80,000. The availability of the revolving credit line is reduced by outstanding letters of credit ($4,887 at September 30, 1988). The credit agreement is uncollateralized, except for the project loan, which is collateralized by the acetic acid unit. The credit agreement contains certain restrictive covenants which, among other things, provide limitations on the incurrence of additional indebtedness and the amount of dividends paid. Subsequent to September 30, 1988, the aggregate dividends payable by the Company is limited to $20,000 plus 50% of the Company's cumulative net income after September 30, 1988. Financial covenants require the maintenance of certain ratios including minimum tangible net worth, minimum working capital and minimum cash flow to debt service ratios.

The Company is required to pay a commitment fee from 3/8% to 1/2% of the unused commitment in addition to an agency fee of $125 per annum.

The project loan is payable in 120 monthly installments commencing September 1, 1986. Interest accrues at the Eurodollar rate plus 3/4 of 1% per annum. In connection with the project loan, the Company entered into an interest rate protection agreement, effective September 30, 1986, with The Chase Manhattan Bank, N.A. The agreement provides that the Company will pay a fixed interest rate of 8.28% plus reserve requirements of approximately .201% of the loan balance instead of the floating Eurodollar rate.

The revolving line of credit expires August 1, 1992, at which time any outstanding principal and interest are due. The revolving line of credit bears interest, at the option of the Company, at the Eurodollar rate plus a margin of from 5/8% to 1 3/4%, the prime rate plus from zero to 1%, or the CD rate plus from 7/8% to 2%. The margin in each case is dependent on the Company's outstanding indebtedness under the credit agreement, other term loans and the Company's cash flow.

TECHNODYNE, INC., JULY 30, 1988

Technodyne, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

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At July 30, 1988, Technodyne, Inc. (the Company) is a 55.1% owned subsidiary of Electro Audio Dynamics, Inc. (EAD or parent) (see note 13).

12. Related-Party Transactions

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The Company advanced funds to EAD of $1,906,000 in 1986 and $1,405,000 in 1987. The funds advanced bear interest at prime plus 1%.

On December 30, 1987, the Company reacquired 1,337,000 shares of its own common stock in exchange for eliminating the receivable from EAD of $3,676,000 at August 1, 1987 (note 13).

At July 30, 1988, total funds advanced during fiscal 1988 were $675,000, including $86,000 of advances subsequent to the new demand loan agreement (note 6) and $123,000 of allocated expenses, and bear interest at prime plus 1%. The balance is secured by a second position in 913,000 of the remaining shares of the Company's stock which EAD owns. As of July 30, 1988, the Company has fully provided for a loss on this balance, since in management's opinion, the collectibility of the balance is uncertain. Such amount is reflected in selling, general, and administrative expenses in the fiscal 1988 consolidated statement of operations.

TECOGEN, INC., OCTOBER 1, 1988

Notes to Financial Statements

6. Related-Party Transactions

Amounts Due to Parent. On May 4, 1987, the Company issued a 6.20% subordinated convertible note to Thermo Electron in the amount of $3,000,000. Of this amount, $1,153,000 represents the recapitalization of indebtedness and $1,847,000 represents an additional advance from Thermo Electron. The note can be prepaid in full or in part at any time and is convertible into shares of common stock of the Company at $9.775 per share.

VOLT INFORMATION SCIENCES, INC., COMBINED SUBSIDIARIES OF (AUSTRALIAN DIRECTORY SERVICES, COURTNAY'S PROPRIETARY LIMITED AND SUBSIDIARIES, VNM DIRECTORY SUPPORT SERVICES, PACIFIC VOLT INFORMATION SYSTEMS, THE UVA COMPANY AND U.V. ASSOCIATES), OCTOBER 28, 1988

Notes to Combined Financial Statements

Note F. Long-Term Debt

Long-term debt consists of the following:

	October 28, 1988	October 30, 1987 (unaudited)
	(dollars in thousands)	
Note payable to Volt Information Sciences, Inc. due Dec. 31, 1991—(a)	$1,493	$1,493
....	....	....

(a) —Interest is calculated on the unpaid principal balance of the loan at a rate equal to 1% above the prime rate charged by Centerre Bank, St. Louis, Missouri. Prepayment of the loan is allowed at the option of Directories (Australia), Ltd., a subsidiary company.

CAPITAL STOCK TRANSACTIONS

CAREERCOM CORPORATION, SEPTEMBER 30, 1988

CareerCom Corporation and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended September 30, 1988, 1987, and 1986

6. Shareholders' Equity:

On December 9, 1986, the Company purchased from Hinderliter Industries, Inc., 1,233,858 shares of CareerCom Corporation common stock at a purchase price of $5,552,364 ($4.50 per share).

THE FORSCHNER GROUP, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements

2. Common Stock and Treasury Stock

On December 12, 1986, Forschner's outstanding Class B common stock, all owned by Marline Resources Company, Inc. ("Marline"), was converted into common stock on a share-for-share basis at Marline's option. Of the 1,200,000 shares issued, 725,000 were repurchased by Forschner. The cost of these purchases, including legal and consulting fees incurred in connection with the repurchases, is reflected as treasury stock in the accompanying consolidated financial statements.

INTEL CORPORATION, DECEMBER 31, 1988

Intel Corporation
Notes to Consolidated Financial Statements
December 31, 1988, December 26, 1987, and December 27, 1986

Capital Stock

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On June 17, 1987 the Company repurchased and retired 13.4 million shares of Capital Stock from International Business Machines Corporation (IBM) for $361.6 million in cash. (See Related-Party Transactions.) This transaction resulted in a $178 million reduction in Capital Stock and a $183.6 million reduction in retained earnings.

Related-Party Transactions

In February 1983, International Business Machines Corporation (IBM) became a related party due to its purchase of Intel stock. During 1987 the Company retired 13,350,000 shares of Capital Stock repurchased from IBM for $362 million in cash. (See Capital Stock.) IBM disposed of its remaining investment in Capital Stock of the Company in 1987 so that as of December 26, 1987 IBM had no capital stock investment in the Company and ceased to be a related party.

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LAFARGE CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Related-Party Transactions

The Company's major shareholder, Lafarge Coppee, provides. . .

During 1986 and 1987 . . . Lafarge Coppee at that time owned 36.5 percent of Aancor Holdings, Inc., the parent company of National Gypsum.

During 1986, the Company issued 1.6 million $1.88 Convertible Preferred Shares to Lafarge Coppee for $40.0 million. An additional 800,000 of $1.88 Convertible Preferred Shares issued as part of the consideration for the purchase of the Huron Cement Division assets were transferred to Lafarge Coppee by National Gypsum. In August 1988, Lafarge Coppee elected to convert these shares into 5.2 million of the Company's Common Shares.

PACIFIC TELECOM, INC., DECEMBER 31, 1988

Pacific Telecom, Inc.
Notes to Consolidated Financial Statements

Note 13. Acquisition and Dispositions

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In early 1989, PTI sold all of its stock ownership interests and related warrants in Paccom Leasing, EyeDentify, Inc. (EyeDentify), Flight Dynamics, Inc. (Flight), and Comdial to Inner, PTI's immediate parent. Inner also effectively assumed substantially all of PTI's contingent obligations and guarantees related to these investments. PTI received approximately $80,300,000 for these investments, net of intercompany amounts owed to these entities by PTI. The sales price for these investments, net of applicable income taxes, approximated PTI's combined carrying value. The sales agreement for EyeDentify, Flight and Comdial requires Inner to pay PTI additional amounts, according to a formula set forth in the sales agreement, should Inner sell these investments prior to December 31, 1993 for a combined price which exceeds the initial sales price of these investments, plus any additional amounts advanced to these entities or subject to outstanding guarantees by Inner.

ROHM AND HAAS COMPANY, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 19. Contingent Liabilities, Guarantees and Commitments

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In 1985, the company acquired 4 million of its shares from The William Penn Foundation pursuant to a prior agreement. The total payment for these shares, which is being made over a five-year period, is based on the average of market prices for the company's shares over the payment period. The agreement gives both the foundation and the company the right to extend the purchase to include up to an additional 4 million shares on similar terms prior to April 1, 1990. It also gives the company a right of first refusal on all of its shares held by the foundation. The foundation now owns 15% of the company's outstanding shares.

SUNBELT NURSERY GROUP, INC., AUGUST 31, 1988 PRICE WATERHOUSE

Sunbelt Nursery Group, Inc.
Notes to Consolidated Financial Statements

Note 13. Subsequent Event

On September 30, 1988, the Company sold 50,000 shares of cumulative convertible preferred stock with a par value of $ .01 per share and a stated value of $100 per share to Intermark, Inc., the Company's majority shareholder. The preferred stock pays dividends of $9 per annum per share, payable quarterly, and is convertible into Sunbelt common stock at $7 per share. The preferred stock is mandatorily redeemable commencing December 31, 1990, and continuing quarterly through September 30, 1994.

TRANSACTIONS INVOLVING PRODUCTS OR SERVICES

COCA-COLA ENTERPRISES, INC., DECEMBER 30, 1988

Coca-Cola Enterprises, Inc.
Notes to Consolidated Financial Statements

Ownership and Reorganization

. . .The Company was a wholly owned subsidiary of The Coca-Cola Company until November 21, 1986, when 51% of the Company's common shares were sold by the Company in a public offering. At December 30, 1988, The Coca-Cola Company owned 47.6% of the Company's common shares.

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Related-Party Transactions

The Company and its subsidiaries are licensed bottlers of soft drink products of The Coca-Cola Company. In the ordinary course of business, the Company purchases sweeteners and soft drink syrups and concentrate from and participates in cooperative advertising arrangements with The Coca-Cola Company, resulting in net payments to The Coca-Cola Company of approximately $691 million in 1988, $599 million in 1987, and $375 million in 1986.

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COMMTRON CORPORATION, AUGUST 31, 1988

Notes to Financial Statements
For the years ended August 31, 1988, 1987, and 1986

1. Summary of Significant Accounting Policies

Commtron Corporation (the "Company") is a majority-owned subsidiary of Bergen Brunswig Corporation ("BBC").

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9. Related-Party Transactions

BBC renders administrative and financial services to the Company on a monthly basis. These costs of services and financing are charged by BBC monthly and may not reflect the costs which the Company would incur if it were necessary to procure such services outside of the consolidated group or if such services were performed internally by the Company. Such costs have been allocated to the Company by BBC based on BBC's actual costs incurred for accounting, personnel and employee benefits, and based on the ratio of the Company's sales to total consolidated sales of BBC and its subsidiaries for administrative costs based on a service agreement. . . .

The following summarizes the costs of services provided by BBC or an affiliate included in the financial statements as selling, general and administrative expenses for the years ended August 31, 1988, 1987 and 1986:

	1988	1987	1986
	(dollars in thousands)		
Administrative	$ 621	$657	$ 954
Accounting, personnel and employee benefits	401	322	415
Total	$1,022	$979	$1,369

EPITOPE, INC., SEPTEMBER 30, 1988

Notes to Financial Statements

Note 9. Research and Development Arrangements

The Company has entered into contractual arrangements, including those discussed in the following paragraphs, for the development of products currently in the research and development stage.

In April 1986, the Company entered into a research and development arrangement with Syva Corporation (Syva), an affiliate of Syntex (U.S.A.), Inc. (Syntex), one of the Company's shareholders (Note 10). Under the arrangement, the Company conducted research and development activities relating to the development of a test to detect the AIDS virus and to the diagnosis of AIDS and AIDS-related infections during fiscal years 1986 through 1988. Such activities were conducted

exclusively for Syva, and the Company granted to Syva and its affiliates the exclusive license to technology developed by the Company and to products, if any, arising out of the technology. In exchange, Syva agreed to provide partial funding for research costs in the aggregate amount of $864,000, with $216,000 having been paid upon execution of the agreement and $108,000 paid quarterly through October 1987. The Company recorded the funding received under the research and development arrangement as a financing transaction for financial reporting purposes. Accordingly, funding aggregating $864,000 was recorded as a noncurrent liability as received in cash. Costs incurred under the project, including general and administrative expenses, aggregated $322,000, $289,000, and $253,000 for the years ended September 30, 1986, 1987 and 1988, respectively, and were charged to operating costs and expenses as incurred. The Company completed its contractual obligations during December 1987 and, accordingly, recognized the full funding of $864,000 as other income during the year ended September 30, 1988.

GAYLORD CONTAINER CORPORATION, SEPTEMBER 30, 1988

Gaylord Container Corporation and Subsidiaries
Notes To Consolidated Financial Statements

5. Related Parties

Management services agreements with Mid-America Development Company, a subsidiary of Mid-America Group, Ltd. (a shareholder of Gaylord), to provide consulting, and strategic and financial planning services for an annual fee of $0.9 million were terminated on June 1, 1988 in connection with the Merger. Subsidiaries of Mid-America Group, Ltd. continue to provide administrative services to Gaylord. Fees paid in consideration for these services are determined on the basis of costs incurred, and are transacted on terms no less favorable to Gaylord than those obtained from unrelated third parties.

PACIFICARE HEALTH SYSTEMS, INC., SEPTEMBER 30, 1988

1. Organization and Significant Accounting Policies

a) Organization and Operations. . . . UniHealth America (UniHealth), a hospital based health care company and the successor corporation to LHS Corp through a merger, owns 3,817,500 shares or 70 percent of the Company's outstanding shares of common stock.

5. Transactions With Affiliates

The Company paid management fees to UniHealth and purchased health care services from hospitals owned and managed by UniHealth, as well as from the Company's minority interests, as set forth in the table below:

Years Ended September 30	1988	1987	1986
Health care services	$10,942	$12,354	$5,286
Management fees	563	543	523

PREFERRED RISK LIFE INSURANCE COMPANY, DECEMBER 31, 1988

Notes to Financial Statements

Note G. Transactions With Related Parties

The Company and Preferred Risk Mutual Insurance Company share certain home office facilities and services, each bearing their proportionate share of costs and expenses. Preferred Risk Mutual Insurance Company is reimbursed for certain administrative expenses and, as a general

agent, for services provided to the writing agents of the Company. These reimbursed costs amounted to $1,421,000 in 1988, $1,168,000 in 1987, and $1,220,000 in 1986.

Preferred Risk Mutual Insurance Company, presently a 21% stockholder of the Company, is evaluating the possible acquisition of additional or all of the remaining shares of stock of the Company.

TOTAL SYSTEM SERVICES, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Note 7. Relationship With Affiliated Companies

At December 31, 1988, CB&T owned 12,990,600 shares (approximately 81.8%) of TSYS' common stock.

TSYS has entered into agreements with CB&T and certain of its affiliates, pursuant to which TSYS performs the bank data processing and bank card data processing services for CB&T and provides bank data processing services to certain of CB&T's affiliates. The terms of these agreements and the charges for services provided pursuant to them are comparable to those provided in similar agreements with unaffiliated customers.

TSYS has entered into management agreements with CB&T and Bancshares pursuant to which TSYS pays for accounting, personnel administration, maintenance, and other services provided by CB&T and Bancshares. TSYS performs certain purchasing and other functions for CB&T for which it receives fees pursuant to a management agreement with CB&T. TSYS also pays Bancshares for internal audit services not provided for in the management agreement mentioned above.

UNION BANK, DECEMBER 31, 1988

Notes to Consolidated Financial Statements
For the years ended December 31, 1988, 1987, and 1986

15. Banking Relationships With Affiliates

The bank, in the ordinary course of business, purchases acceptances, participates in loans, accepts deposits and enters into other banking transactions with affiliated companies, including its parent, The Bank of Tokyo, Ltd. The bank provides international transaction processing services to the San Francisco and Los Angeles Agencies of The Bank of Tokyo, Ltd. For the three years ended December 31, 1988, commissions for these services were no more than 2 percent of non-interest income.

PURCHASE OR SALE, OTHER

AUSIMONT, N.V., DECEMBER 31, 1988

Ausimont, N.V.
Notes to Consolidated Financial Statements

Note 1. Organization and Basis of Consolidated Financial Statements:

At December 31, 1988, Montedison owned 21,643,209 (72.6%) shares of the Company's outstanding capital stock.

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Note 13. Shareholders' Equity:

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In 1988, the Company sold a product line to a wholly owned subsidiary of Montedison. As the transaction was with a company within a controlled group, the gain on the sale, L. 5,091 million ($3,892 thousand) has been recorded as a deemed capital contribution.

BROADVIEW SAVINGS BANK, DECEMBER 31, 1988

Broadview Savings Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

6. Loans Receivable

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. . . During 1988, servicing rights on mortgage loans of approximately $178,569,000 were sold at a gain of $2,086,000. Servicing rights on mortgage loans of approximately $420,000,000 were sold at a gain of $7,318,000 in 1987. These gains were included in the net gains on sales of securities and loans in the consolidated statements of operations. Included in these sales were servicing rights on loans of $71,000,000 and $350,000,000 during 1988 and 1987, respectively, sold to a subsidiary of Western Savings and Loan Association which resulted in gains of $790,000 and $6,387,000, respectively. Western Savings and Loan Association is the owner of the Series A 12% Cumulative Preferred Stock (See Note 11).

COMMERCIAL CENTER BANK, DECEMBER 31, 1988

Notes to Financial Statements

5. Capital Restructure Plan

During 1988, the Bank received permission from the Federal Deposit Insurance Corporation and the California State Banking Department to implement a capital restructure plan effective January 1, 1988. As part of this plan. . . non-performing loans and real estate owned in the amount of $29,229,000 were sold to the Bank's Parent.

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FGMC, INC., SEPTEMBER 30, 1988

FGMC, Inc. and Subsidiaries (A wholly owned subsidiary of General Homes Corporation)
Notes to Consolidated Financial Statements

(3) Investments

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Notes receivable-property sales and real estate owned FGMC acquired notes receivable-property sales from GHC at its net book value of $30,798,000, $15,275,000 and $3,065,000 during fiscal 1985, 1986 and 1987, respectively. No notes receivable-property sales were acquired in fiscal 1988.

Effective as of October 1, 1988, GHC and FGMC entered into an agreement in which GHC will ultimately purchase the land acquired by FGMC through foreclosure at FGMC's net book value of the land as of September 30, 1988. During the interim period before such purchase takes place, GHC will have all risks and rewards of ownership. Thus, any gains, losses, chargeoffs or operating expenses during the interim period will be transferred to GHC by increasing or reducing FGMC's payable to GHC.

FLORIDA EAST COAST INDUSTRIES, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
December 31, 1988, 1987, 1986

2. Majority stockholder

The Alfred I. duPont Testamentary Trust (the "Trust") owns approximately 5% of the Company's common stock. The Trust also owns approximately 86% of the common stock of St. Joe Paper Company, which owns approximately 53% of the Company's common stock. The payments of dividends by the Company were the only significant transactions with St. Joe Paper Company or its affiliates. In 1987, in addition to dividends, the Company purchased a 138-acre parcel of land in Jacksonville from The Nemours Foundation and Southwood Properties at the independently appraised value of $4,813,000. The Nemours Foundation and Southwood Properties are an affiliate and a subsidiary of the Trust and St. Joe Paper Company, respectively.

GULF CANADA RESOURCES, LIMITED, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

7. Gulf Canada Square

On December 29, 1987, the Company sold its Calgary office building, Gulf Canada Square, to Olympia & York Developments Limited, its parent company. The Company received $261 million from the sale. After taking into account certain costs recognized at the time of the sale, net proceeds approximated the carrying value of the building. . . . An independent appraiser provided an opinion that the terms of sale. . .were fair to the Company in the context of the overall transaction.

INSITUFORM MID-AMERICA, INC., SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements

Note M. Related-Party Transactions

The Company is related to Insituform of North America, Inc. and its subsidiaries (INA) through INA's ownership of 19.1% of the Company's Class A common stock and 31.3% of the Company's Class B common stock.

For the years ended September 30, 1988, 1987, and 1986, INA charged the Company as follows:

	1988	1987	1986
Construction material and equipment	$2,923,840	$1,911,254	$1,909,512
. . . .	. . . .	. . . .	. . . .

LAFARGE CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements

Related-Party Transactions

The Company's major shareholder, Lafarge Coppee, provides. . . .

During 1986 and 1987, the Company purchased substantially all of the assets, including a cement plant in Alpena, Michigan, thirteen cement terminals located around the Great Lakes, and inventory, of National Gypsum Company's Huron Cement Division. Lafarge Coppee at that time owned 36.5 percent of Aancor Holdings, Inc., the parent company of National Gypsum.

During 1986, the Company issued 1.6 million $1.88 Convertible Preferred Shares to Lafarge Coppee for $40.0 million. An additional 800,000 of $1.88 Convertible Preferred Shares issued as part of the consideration for the purchase of the Huron Cement Division assets were transferred to Lafarge Coppee by National Gypsum. In August 1988, Lafarge Coppee elected to convert these shares into 5.2 million of the Company's Common Shares.

IV

TRANSACTIONS BETWEEN THE REPORTING ENTERPRISE AND PEOPLE WHO CONTROL OR SIGNIFICANTLY INFLUENCE IT

A transaction between the reporting enterprise and a person who controls or significantly influences it, or between the reporting enterprise and a member of the immediate family of such a person, is a related-party transaction under SFAS 57. Forty-eight examples are presented in this chapter of disclosures between such related parties. The examples are classified according to the type of transaction that occurred.

LOAN OR DEBT GUARANTEES

ANALYTICAL SURVEYS, INC., SEPTEMBER 30, 1988

Analytical Surveys, Inc. and Subsidiary
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

Note G. Long-Term Obligations

Long-term obligations consist of the following:

	September 30	
	1988	1987
....	....	....
Note payable to a bank (90% guaranteed by the SBA), interest at 13.24%, payable in monthly installments of $10,354 including interest, collateralized by equipment and life insurance on the Company President and personally guaranteed by the Company President and a director, due March 1990; paid in full during the year ended September 30, 1988	—	261,701
....	....	....

BEI HOLDINGS, LTD., OCTOBER 31, 1988

Notes to Consolidated Financial Statements

14. Commitments and Contingencies:

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. . .The Company is also contingently liable as guarantor of two notes payable totaling $475,000 made by a bank to an executive officer of the Company.

CIRCLE FINE ART CORPORATION, SEPTEMBER 30, 1988

Circle Fine Art Corporation and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended September 30, 1988, 1987, and 1986

7. Long-Term Debt:

The composition of long-term debt at September 30 is as follows:

	1988	1987
. . . .	. . . .	. . . .
Real estate mortgage note payable (B)	585,000	591,000
. . . .	. . . .	. . . .

●●●●

(B) In November 1984, the Company entered into a real estate mortgage note for a two-year period ending October 31, 1986 for $600,000 with the right to extend the note for five one-year periods. In August of 1986, the Company, pursuant to the option in the note, elected to extend the note for the period from November 1, 1986 to October 31, 1987. The interest rate for this period was 7.54% with monthly principal and interest installment payments of $4,270. In July of 1987, the Company extended the loan for the period from November 1, 1987 to October 31, 1988. The interest rate for this period was 8.73% with monthly principal and interest installment payments of $4,750. In August of 1988, the Company extended the loan for the period from November 1, 1988 to October 31, 1989. The interest rate for this period is 10.13% with monthly principal and interest installment payments of $5,318. The remaining principal balance of approximately $580,000 is due on October 31, 1989. The real estate mortgage note is secured by the land and building at 58 East Walton Street, Chicago, Illinois, which houses the Company's Chicago distribution facility and one of its art galleries, and is guaranteed by the Company's Chairman of the Board.

DIGITAL TRANSMISSION, INC., JULY 31, 1988

Notes to Financial Statements
For the Years Ended July 31, 1988, 1987, and 1986

5. Short-Term Financing and Long-Term Debt

On April 8, 1985, the Company entered into an agreement with ITT Commercial Financial Corp., pursuant to which the Company obtained a line of credit of $2 million. Borrowings of the Company pursuant thereto are secured by a lien upon the Company's inventory and intangible assets and accounts receivable without exception. As additional collateral, an officer, director, and stockholder of the Company, has pledged his personal guarantee. Such officer, director, and stockholder

has the financial ability to perform on the guarantee of such line of credit. The interest rate is 4½% above the current prime rate adjusted as the prime changes with a minimum of 13½% required. Borrowings against such line of credit amounted to $1,245,045 as of July 31, 1988 and $1,490,898 as of July 31, 1987.

On December 9, 1986, the Company obtained a line of credit from First American National Bank, Jackson, Tennessee. Borrowings of the Company pursuant thereto bear interest at the rate of 9½% per annum and are secured by the personal guarantee of an officer, director and stockholder of the Company, and by securities posted by the spouse of such officer, director and stockholder. Such officer, director and stockholder has the financial ability to perform on the guarantee of such line of credit. Borrowings against such line of credit amounted to $500,000 as of July 31, 1987. During fiscal year 1988 the debt was paid and the line of credit closed.

Included in one of the financing agreements is a prohibition of paying dividends without the consent of that lender.

IN HOME HEALTH, INC., SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements
For the Years Ended September 30, 1988, 1987, and 1986

3. Note Payable. Bank

At September 30, 1987, the Company had a $60,000 note payable to a bank. Accounts receivable were pledged as collateral on the note payable. The interest rate at September 30, 1987 was 10 percent. The note was personally guaranteed by officers of the Company and was due on demand.

5. Commitments and Contingencies

The Company has guaranteed the purchase of 150,000 shares of common stock at $.75 per share should officers default on their bank loan which is secured by a pledge of such shares of common stock owned by these officers.

POWEREC INTERNATIONAL, INC., AUGUST 31, 1988

Powerec International, Inc.
Notes to Financial Statements

5. Notes Payable:

Notes payable at August 31 consist of:

	1988	1987
Note payable to shareholder, collateralized by a corporate guarantee and a personal guarantee from the Company's President/shareholder, payable in monthly installments of interest only at 16% per annum, contributed to the Company effective November 30, 1987 in exchange for common stock (Note 10)		$25,000
Note payable to bank, advanced under a revolving line of credit, collateralized by personal savings accounts of certain shareholders, payable in monthly installments of interest only at prime plus 2.5% per annum, paid in full on August 5, 1988		175,000
Note payable, collateralized by inventories, accounts receivable, and pledged restricted certificates of deposit of $1,000,000 (restricted as to withdrawal through note maturity) at August 31, 1987 and		

	1988	1987
inventories and accounts receivable at August 31, 1988, guaranteed by the Company's President/shareholder, payable in monthly installments of $7,639 plus interest at prime plus 4% per annum (14% at August 31, 1988), maturing February 20, 1990, including covenants related to minimum net worth and maximum debt levels and a minimum liquidity ratio	$190,972	$244,444
....	....	....
Note payable advanced under a line of credit, collateralized by inventories, accounts receivable, and pledged restricted certificates of deposit of $1,000,000 (restricted as to withdrawal through note maturity) at August 31, 1987, and inventories and accounts receivable at August 31, 1988, guaranteed by the Company's President/shareholder, payable in monthly installments of interest only at prime plus 4% per annum (14% at August 31, 1988), maturing February 20, 1990, including covenants related to minimum net worth and maximum debt levels and a minimum liquidity ratio	249,796	1,126,424
Notes payable to finance company, collateralized by personal assets of the Company's President/shareholder, payable in quarterly installments of interest only at 11% per annum, principal and remaining interest repaid October 14, 1988	236,832	
....	....	....

10. Common Stock:

On February 27, 1987, 100,000 shares of common stock were issued to the Company's President/shareholder as consideration for his personal guarantee of certain debt financing (see Note 5).

ROCKY MOUNTAIN MEDICAL CORPORATION, SEPTEMBER 30, 1988

Rocky Mountain Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988, 1987 and 1986

(4) Long-Term Debt

	September 30	
	1988	1987
Note payable to a bank, interest at the bank's base rate,* monthly payments of $5,280, including interest, with a balloon payment due on June 1, 1989, collateralized by notes receivable from franchisees and personally guaranteed by an officer/stockholder	$173,703	$ 287,609
....	....	....
Note payable to a partnership; monthly payments of $1,044, including interest of 12%, until September 30, 1989; thereafter, interest at prime rate plus 2% with payments based on a fifteen year amortization and the remaining principal due in a balloon payment on September 30, 1991; collateralized by land and a building in Sedona, Arizona purchased with the proceeds (Note 6) and personally guaranteed by an officer/stockholder	$ 87,000	—
....	....	....

*Bank's base rate at September 30, 1988, was 10.75% and is adjusted annually.

SUNRISE PRESCHOOLS, INC., JULY 31, 1988

Sunrise Preschools, Inc.
Notes to Financial Statements
July 31, 1988 and 1987

(10) Related-Party Transactions

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Certain officers/stockholders of the Company have personally guaranteed preschool facility lease payments to non-related parties.

LEASE ARRANGEMENTS

AMERICAN PASSAGE MARKETING CORPORATION, SEPTEMBER 24, 1988

American Passage Marketing Corporation
Notes to Consolidated Financial Statements

Note K. Related-Party Transactions

Until July 1988, the Company leased certain equipment from its former President, Chief Executive Officer and Director. Payments under these agreements totaled $6,000, $24,000, and $37,000 during 1988, 1987 and 1986, respectively.

From July 1984 until July 1987, the Company leased various photofinishing and office equipment from the father of a former director of the Company. Lease payments for this equipment during 1987 and 1986 were $73,000 and $98,000, respectively. These leases were bought out by the Company in 1987 for $222,000 and have been terminated.

During September 1985, the Company entered into a lease with its former President, Chief Executive Officer and Director, for use of a building. The lease expires on September 30, 1995, and provides for monthly base rent of $14,000, subject to a consumer price index adjustment in September 1990. The terms of the lease provide that the Company pay taxes, insurance, repair and maintenance expenses, and any improvements related to the premises. During 1988, 1987 and 1986, the Company expended approximately $53,000, $210,000 and $1,085,000, respectively for leasehold improvements for this building. Rent paid in 1988, 1987 and 1986 totaled $168,000 each year.

CATALINA LIGHTING, INC., SEPTEMBER 30, 1988

Catalina Lighting, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

11. Related-Party Transactions

Catalina Lighting, Inc. leases its facilities from the major shareholder and a vice-president of the Company. Rent paid to them for the years ended September 30, 1988, 1987 and 1986 was $63,849, $57,778 and $45,000, respectively. The terms of the leases are until 1993 and will be adjusted for increases in annual real estate taxes and insurance.

DART DRUG STORES, INC., JULY 30, 1988

Dart Drug Stores, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended July 30, 1988 and July 31, 1987 and 1986

Note 9. Related-Party Transactions

Six of the Company's stores were leased indirectly from a Director of the Company. Aggregate lease expense paid for these stores was $379,300 in 1988. Management believes these stores' leases

were negotiated at arms length, because the leases were executed prior to the landlord becoming a Director in fiscal 1988.

GENERAL SCIENCES CORPORATION, JULY 31, 1988

General Sciences Corporation
Notes to Financial Statements
July 31, 1988 and 1987

Note E. Commitments and Contingencies
1. Leases

●●●●

In addition, the Company leased equipment from certain officer/stockholders under agreements which terminated effective July 31, 1987. Rental expense under these leases amounted to $14,172 and $23,000 for the years ended July 31, 1987 and 1986, respectively.

HUDSON FOODS, INC., OCTOBER 1, 1988

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

9. Related-Party Transactions

Certain of the leases relating to transportation equipment involve the Company's chairman as lessor. Payments made to the Company's chairman in connection with these leases amounted to $1,038,325 in fiscal 1988, $1,127,395 in fiscal 1987 and $604,025 in fiscal 1986.

INVENTION, DESIGN, ENGINEERING ASSOCIATES, INC., JULY 31, 1988

Invention, Design, Engineering Associates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
July 31, 1988 and 1987

(9) Related-Party Transactions

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The Company leased certain manufacturing and computer equipment from one of the Company's directors for a monthly amount of $3,580. The leases expired during fiscal year 1987 and the equipment was purchased by the Company for approximately $13,000.

●●●●

The above transactions, in the opinion of management, provide for compensation to the parties at or below comparable pricing in the marketplace.

PSICOR, INC., SEPTEMBER 30, 1988

Notes to Financial Statements
For the Years Ended September 30, 1988, 1987, and 1986

6. Related-Party Transactions

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Until August 1987, the Company leased certain real estate on a month-to-month basis from the Company's controlling shareholder and president and a Company vice-president and director. Rent expense for the years ended September 30, 1987 and 1986 was $77,000 and $84,000, respectively.

SUNRISE PRESCHOOLS, INC., JULY 31, 1988

Sunrise Preschools, Inc.
Notes to Financial Statements
July 31, 1988 and 1987

(7) Leases

During the current year, the Company subleased temporary office space and leased equipment used in two preschool facilities from two officers/stockholders for $3,874 and $2,000 per month, respectively. The monthly rent for temporary office space was equal to the officers/stockholders' underlying lease with the building owner. The temporary office lease was terminated in September 1987. The equipment lease expired in January 1988 and was renewed on a month-to-month basis.

Total rent expense for operating leases, and the sublease, including amounts paid to related parties of $32,000, $175,000 and $193,000, respectively, for each of the years in the three-year period ended July 31, 1988 was approximately as follows:

(10) Related-Party Transactions

During 1987, the Company was provided free rent for 10 months related to the temporary office space subleased from an officer/stockholder. Had the Company made such rent payments, rent expense would have increased by approximately $39,000 for fiscal year 1987.

LOANS AND ADVANCES

BUFFALO, INC., SEPTEMBER 30, 1988

Buffalo, Inc. and Subsidiary
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

(4) Officer Receivable

The Company has made advances to and payments on behalf of the Company's President totalling $51,707 at September 30, 1988 and $59,440 at September 30, 1987. The receivable is due on demand and is non-interest bearing. Payments totalling $7,733 during the year ended September 30, 1988 and $1,087 during the year ended September 30, 1987 were made on this receivable. No write-offs have taken place.

CHARTER MEDICAL CORPORATION, SEPTEMBER 30, 1988

Charter Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Merger

. . . As a result of the Merger, William A. Fickling, Jr., Chairman and President of the Company and certain members of his family (the "Family Group") hold approximately 32% of the Company's Class B Common Stock.

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Founders' Note

In conjunction with the Merger, on September 1, 1988, the Company loaned $80,000,000 to Mr. Fickling and two family limited partnerships from the proceeds of the DRC Facility. The Founders' Note is payable on demand and matures on June 1, 1990. Interest is payable quarterly at the same variable rate of interest applicable to the Company's DRC Facility.

CK FEDERAL SAVINGS BANK, SEPTEMBER 30, 1988

CK Federal Savings Bank and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

Note 5. Loans Receivable

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The following is a reconciliation of loans outstanding in excess of $60,000 to executive officers, directors and their immediate families for the year ended September 30, 1988.

Balance at beginning of year	$ 956,938
New loans	208,300
Principal repayments	(23,092)
Balance at end of year	$1,142,146

COMMUNICATIONS WORLD INTERNATIONAL, INC., JULY 31, 1988

Communications World International, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 5: Related-Party Transactions

Pursuant to the terms of his employment (which expired in May, 1988), the Company awarded a Master Franchise to an officer and waived payment of the related $40,000 fee. Additionally, a one year, $5,000, 9.25% loan was extended to this officer on July 1, 1987. The balance due at July 31, 1988 and 1987 was $826 and $4,608, respectively. Related party receivables of $5,657 at July 31, 1988 also include receivables from employees of $4,831.

The Company borrowed $6,000 from the President of the Company in April, 1988. Principal and interest at eleven percent per annum are payable on demand.

FIFTH THIRD BANCORP., DECEMBER 31, 1988

Fifth Third Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

14. Related-Party Transactions

At December 31, 1988 and 1987, certain directors, executive officers, principal holders of Bancorp common stock and any associates of such persons were indebted to the banking subsidiaries

in the aggregate amount of $71,360,000 and $73,842,000, respectively. During 1988, new loans aggregating $66,512,000 were made to such parties and loans aggregating $68,994,000 were repaid. Such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time of comparable transactions with unrelated parties.

PENTECH INTERNATIONAL, INC., SEPTEMBER 30, 1988

Pentech International, Inc.
Notes to Financial Statements
Years ended September 30, 1988, 1987, and 1986

3. Officers' advances:

At various times throughout the years ended September 30, 1987 and 1986, two officer/shareholders advanced sums to the Company and were advanced sums from the Company on a demand basis. The highest amount owed to the Company by the officer/shareholders during the years ended September 30, 1987 and 1986 was $12,993 and $53,000, respectively. Such advances were interest free. At September 30, 1988 and 1987, the balance in the officers' advances account was zero.

ROCKINGHAM BANCORP, AUGUST 31, 1988

Rockingham Bancorp and Subsidiaries
Notes to Consolidated Financial Statements
Three Years Ended August 31, 1988, 1987, and 1986

Note 4. Loans Receivable

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In the ordinary course of business, the Association makes loans to its directors, officers and their associates and affiliated companies ("related parties") at substantially the same terms as those prevailing at the time of origination for comparable transactions with other borrowers. An analysis of total related-party loans which exceeded $60,000 in aggregate outstanding amount to any related party during any part of the year ended August 31, 1988 follows:

Balance at August 31, 1987	Additions	Repayments	Balance at August 31, 1988
	(in thousands)		
$318	$765	$634	$449

THE VADER GROUP, INC., SEPTEMBER 30, 1988

The Vader Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

8. Related-Party Transactions:

During 1988, the Company made advances to the Chairman of the Board, Chief Executive Officer and President (Chairman) for his personal use, bearing interest at 10% per annum payable on demand. The maximum amount outstanding, at any one time during the year, was $2,945,200. At September 30, 1988, the Chairman owes the Company $353,720 plus interest of $7,120.

During 1988, the Chairman made advances to the Company for working capital purposes payable on demand and bearing interest at 12% per annum. The maximum amount outstanding, at any one time during the year, was $320,000 which was repaid. In addition, the Chairman received warrants to purchase 1,564 shares of the Company's common stock at $5.00 per share expiring in December 1992.

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In June 1987, the Chairman advanced $250,000 to the Company for eight days.

CAPITAL STOCK TRANSACTIONS

AMERICAN PASSAGE MARKETING CORPORATION, SEPTEMBER 24, 1988

American Passage Marketing Corporation
Notes to Consolidated Financial Statements

Note B. Corporate Restructuring and Discontinued Operations

On August 3, 1988, the Company also entered into a Stock Purchase Agreement pursuant to which the Company purchased 1,098,160 shares of the Company's Common Stock from Mr. Scherer and Dr. Yago for an aggregate purchase price of $4,392,640 evidenced by issuing subordinated promissory notes of the Company (See Note H). Mr. Scherer was a Director and the President and Chief Executive Officer of the Company; Dr. Yago was a Director of the Company. . . .In connection with the foregoing transactions, Mr. Scherer, Dr. Yago and. . . resigned their positions with the Company.

No gain or loss was recognized as a result of. . . the retirement of the common stock acquired through the two agreements referred to above.

ARK RESTAURANTS CORP., OCTOBER 1, 1988

Ark Restaurants Corp. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended October 1, 1988, October 3, 1987, and September 27, 1986

1. Business, Organization, Recapitalization, and Basis of Presentation

During each of the years through August 7, 1985, approximately 95% of the shares of the Company were held substantially equally by three individuals. On such date, certain subsidiaries of the Company acquired approximately one-third of the then outstanding shares of common stock (964,599 shares, after giving effect to the October 15, 1985 stock split referred to below), from a former officer and director of the Company for a purchase price of $3,000,000. The excess of the purchase price over the original capital contribution for such shares has been accounted for under the purchase method. Accordingly, the amount of the original contribution ($10,000) has been reflected as the cost of treasury stock in the accompanying balance sheets and the excess ($2,990,000) has been allocated to individual assets based on fair values at the date the shares were acquired. The consolidated balance sheets reflect the allocation of the total amount of $2,990,000 to leasehold rights ($44,000) and goodwill ($2,946,000) (see Note 7 for the terms of the obligations issued by the subsidiaries in connection with such acquisition of shares).

BEI HOLDINGS, LTD., OCTOBER 31, 1988

Notes to Consolidated Financial Statements

12. Related-Party Transactions:

In October 1986, the Company acquired an 18% interest in First Nationwide Network ("FNN"), a corporation which provides services to member thrift institutions, from the President and Chair-

man of the Company for $30,000. . . . In October 1987, the Company's equity position was sold, resulting in a gain of approximately $2,692,000 to the Company.

FIRST COINVESTORS, INC., SEPTEMBER 30, 1988

First Coinvestors, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(8) Commitments and Other:

The Company has entered into an agreement with its President to purchase (at 85% of market value) from his estate common stock of the Company as determinable pursuant to Section 303 of the Internal Revenue Code. This stock repurchase commitment would be funded from the proceeds of life insurance policies on the President's life in the amount of $500,000 owned by the Company.

HEARX, LTD., SEPTEMBER 30, 1988

Hearx Ltd. and Subsidiary
Notes to Consolidated Financial Statements
Year Ended September 30, 1988 and the Period April 11, 1986 (inception) through September 30, 1987

8. Stockholders' equity:

During 1987, the Company. . . sold 1,100,000 shares of its common stock to officers (other than Dr. Brown) for an aggregate purchase price of $20,000; and sold 82,500 shares of its common stock to outside directors for an aggregate purchase price of $1,500. The difference between the amount received for the stock and the fair value of the shares at the date of issuance has been recorded as deferred compensation because of the transfer restrictions described below.

Twenty percent of the shares of common stock issued to each person described in the preceding paragraph were issued without any transfer restrictions. The remaining 80% of the shares issued to each person are subject to transfer restrictions as described in the following paragraph. The restrictions lapse as to 25% of such shares each year over four years, commencing on the date the shares were issued.

If any of the . . . officers (other than Dr. Brown), and outside directors cease providing services to the Company, such of his or her shares as then remain subject to the restrictions described in the preceding paragraph must be forfeited or resold to the Company at the original issuance price. During 1988 . . . 231,000 shares were repurchased from two former officers.

INTERNATIONAL DAIRY QUEEN, INC., NOVEMBER 30, 1988

International Dairy Queen, Inc.
Notes to Consolidated Financial Statements
November 30, 1988, 1987, and 1986

8. Stockholders' equity

During 1988, the Company purchased and constructively retired 78,377 (including 17,072 shares acquired from its former CEO) shares of Class A common stock at an average price of $32.63, and 121,901 (including 106,055 shares acquired from its former CEO) shares of Class B common stock at an average price of $33.98 per share. The number of retired shares has been eliminated from common stock and the cost allocated between common stock, additional paid-in capital, and retained earnings.

MARIETTA CORPORATION, SEPTEMBER 30, 1988

Notes to Financial Statements

10. Stock Repurchase and Non-Compete Agreement

On June 23, 1988, the Company entered into a stock repurchase and non-compete agreement with a former executive, director and substantial shareholder of the Company. Under this agreement on October 13, 1988 the Company repurchased 389,000 shares of its common stock totaling $4,579,750. These shares were purchased at the market price on the date of the agreement for $11.75 per share. For consideration aggregating $538,788 the non-compete agreement commences on June 23, 1988 and terminates thirty-six months from that date.

PRAB ROBOTS, INC., OCTOBER 31, 1988

Notes to Financial Statements

9. Related-Party Transactions:

On September 22, 1988, the Company acquired 35,715 shares of its common stock from its president for $250,000 based upon a price of $7 per share.

TRANSACTIONS INVOLVING PRODUCTS OR SERVICES

CANAVERAL INTERNATIONAL CORP., SEPTEMBER 30, 1988

Canaveral International Corp.
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

G. Other Transactions With Related Parties

In July, 1975, the wife of one of the officers was appointed Real Estate Broker for the Company's real estate operations at a fee of $14,300 per year. Florida law requires that certain real estate operations be supervised by a registered Real Estate Broker. She also received a brokerage fee of $13,000 per year for 1988, 1987 and 1986 from a subsidiary's joint venture for acting as the broker on a customer's sale of previously purchased land.

CHAPARRAL RESOURCES, INC., NOVEMBER 30, 1988

Chaparral Resources, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note G. Related-Party Transactions

The Company paid a director $24,000, $25,000 and $30,000 during 1988, 1987 and 1986, respectively, for public relations consulting services.

EQUIMARK CORPORATION, DECEMBER 31, 1988

Equimark Corporation
Notes to Consolidated Financial Statements

5. Related-Party Transactions

The Corporation has transacted business with various related parties, principally certain directors or their business interests. Costs incurred by the Corporation for advertising, rent and repairs, consulting, real estate management and various other services rendered by such persons or their business relationships were $860,000 in 1988, $765,000 in 1987 and $1,362,000 in 1986. Such costs were incurred on terms and conditions that were comparable to expenditures that would have been made to other parties for similar services.

GO VIDEO, INC., JULY 31, 1988

Go Video, Inc. and Subsidiary (A Development Stage Company)
Notes to Consolidated Financial Statements
For the years ended July 31, 1988 and 1987, the seven months ended July 31, 1986, and the year ended December 31, 1985

I. Related-Party Transactions

On June 4, 1987, the Company entered into a consulting agreement with the Company's former President requiring the Company to pay consulting fees of $40,000 over the period of July 1, 1987 through July 31, 1988. The Company's costs related to this agreement were $37,500 and $2,500 for the years ended July 31, 1988 and 1987, respectively.

HUDSON FOODS, INC., OCTOBER 1, 1988

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

9. Related-Party Transactions

Certain officers and employees of the Company own turkey and broiler farms and enter into grower contracts with the Company which provide for the payment of grower fees (not included in lease amounts above). The Company's arrangements between these officers and the Company are similar to arrangements with other unrelated growers and as such do not include an ongoing commitment by the Company. Grower fees paid by the Company to these officers amounted to $781,209 in fiscal 1988, $751,062 in fiscal 1987 and $529,737 in fiscal 1986.

In addition, certain executive officers and directors and entities controlled by these persons or by persons related to such officers and directors are engaged in poultry grow-out operations with the Company. These operations involve the purchase of chicks and feed from the Company, and the growing-out of the birds to maturity. The price at which the mature birds are resold to the Company reflects total growing costs. Amounts paid to these individuals and/or entities for poultry produced in their operations amounted to $15,087,256 in fiscal 1988, $12,452,686 in fiscal 1987, and $8,434,647 in fiscal 1986. At October 1, 1988, the Company has included $1,636,914 of accounts receivable from and $2,474,452 of accounts payable to a related party in accounts receivable and payable.

J2 COMMUNICATIONS, JULY 31, 1988

J2 Communications
Notes to Financial Statements

3. Related-Party Transactions

Approximately $55,000 per annum was paid to an officer/director for various consulting services during 1988 and 1987.

POWEREC INTERNATIONAL, INC., AUGUST 31, 1988

Powerec International, Inc.
Notes to Financial Statements

12. Related-Party Transactions:

. . . the Company incurred costs during 1987 of $71,000 for services rendered by a director/shareholder of the Company in connection with obtaining debt financing, $19,000 of which was included in accounts payable at August 31, 1987. The director/shareholder was also issued 120,000 shares of common stock during 1987 and was paid $32,000 during 1988 for consulting services related to assistance in obtaining debt and equity financing.

RAPITECH SYSTEMS, INC., JULY 31, 1988

Rapitech Systems, Inc. (a development stage company)
Notes to Financial Statements

(6) Commitments and contingencies:

Related-party transactions—The Company has agreements with a consultant, who is also an officer of the Company, to develop and support its Conversion ware products. Under the terms of the agreements, the consultant will receive 2½% of the net sales, as defined, of FORTRIX-C and 2% of the net sales, as defined, of COBLIX-C up to $500,000, as well as 15% of the proceeds from the sale of the rights or territorial license of the products. During the year ended July 31, 1988, $6,811 was paid to the consultant based upon sales of the products. In connection with the development and customer support of these products, $162,983, $164,619 and $97,358 was paid to the consultant in 1988, 1987 and 1986, respectively. Of these amounts, $48,679 was charged to research and development expense in 1986 and $162,983, $164,619 and $48,679 were capitalized as product development costs in 1988, 1987 and 1986, respectively, as technological feasibility has been established for these products.

PURCHASE OR SALE, OTHER

ANALYTICAL SURVEYS, INC., SEPTEMBER 30, 1988

Analytical Surveys, Inc. and Subsidiary
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

Note L. Related-Party Transactions

During the year ended 1987, the President of the Company purchased a vehicle from the Company in exchange for a $10,000 note (see note C) and also borrowed $20,000 from the Company (see note C). Both of these notes were paid in full during the year ended September 30, 1988.

CLAIRSON INTERNATIONAL CORPORATION, SEPTEMBER 24, 1988

Clairson International Corporation
Notes to Consolidated Financial Statements

7. Other Related-Party Transactions

The Company has reclassified certain noncurrent assets of the Commercial Shelving and Custom Manufacturing Divisions as assets held for resale based upon offers from the principal shareholders for the sale of those divisions. The Company recognized a loss of $1,450,000 in its fiscal 1988 statement of operations based upon various offers received from the principal shareholders and from interested third parties. The contracts for the sale of those divisions have not been formally executed as of January 27, 1989.

On January 24, 1989 the Company sold the Commercial Display Division (formerly Southeastern Manufacturing Company, Inc.) to a former officer of the Company for a $1,950,000 note to be paid on or before February 28, 1989 and assumption of the division's liabilities. The Company recognized a loss of approximately $1,233,000 as a result of the sale of this division. This loss was recognized in fiscal 1988.

During October 1987, the Company purchased computer equipment for $580,794 from its principal shareholders, which had been leased from them during previous years for approximately $295,500 per year.

THE FLAGLER BANK CORPORATION, DECEMBER 31, 1988

The Flagler Bank Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 14. Transactions With Related Parties

On July 27, 1987, six of the Company's directors purchased a nonperforming mortgage note ("Note") from the Bank for $1,428,000. This purchase price represented the full amount of the Bank's receivable under the Note, including $167,000 for uncollected interest and $5,000 for attorney's fees in addition to the outstanding principal.

The Note was originally purchased by the Bank on December 18, 1986 from a partnership ("Partnership") which was owned 50 percent by an unrelated company and 50 percent by Mr. William C. Clark, who at the time was a director of the Company and the Bank. The Note was originated on April 18, 1986 when the Partnership sold the property to an unrelated party ("Mortgagor") taking back a mortgage ("Mortgage") in the principal amount of $1,256,000. After the Note was purchased by the Bank from the Partnership, the Mortgagor defaulted on the Note and on April 20, 1987, the Bank began foreclosure proceedings.

Prior to the sale of the Note to the six directors, the Bank had obtained an appraisal from an independent M.A.I. appraiser which estimated the "quick sale" value of the property to be between $1,285,000 and $1,371,000. After more than three months of marketing efforts to sell the property, the Bank had not received any offers. The aforementioned directors then offered to purchase this Note and Mortgage at a price equal to the full amount of the Bank's outstanding receivable. At the present time, the six directors have completed the foreclosure proceedings and still own the property.

PRESIDIO OIL COMPANY, DECEMBER 31, 1988

Presidio Oil Company and Subsidiaries
Notes to Consolidated Financial Statements
For the Year Ended December 31, 1988, the Six Months Ended December 31, 1987, and the Years Ended June 30, 1987 and 1986

11. Related-Party Transactions

The Company purchased mineral interests from Grant E. Thayer and F. Robert Tiddens, formerly the Vice-President-Lands of the Company, for a total cash consideration of $59,000 and $165,000 during the six months ended December 31, 1987 and the year ended June 30, 1987, respectively, which represented the fair market value of such interests at the dates of acquisition.

Rocky Mountain Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

(10) Subsequent Transactions

The following pro-forma consolidated condensed balance sheet has been prepared to reflect the events which have occurred subsequent to year end, discussed herein, as if they had occurred at September 30, 1988.

BALANCE SHEET—SEPTEMBER 30, 1988
(unaudited)

	Historical	Adjustments Increase (Decrease) *(in thousands)*	Pro-Forma
Current Assets	$332	$1,710 (A) (25) (C) (25) (D) 13 (E) (94) (F)	$1,911
Notes Receivable	43	135 (G)	178
Property, Plant and Equipment	240	45 (B) (57) (E) 225 (F)	453
Purchased Technology and Other Assets	194	65 (C) 150 (D) (12) (G) (135) (G)	262
Total Assets	$809	$1,995	$2,804
Current Liabilities	$314	$75 (D) (47) (E)	$342
Long-Term Debt	85	45 (B) 131 (F)	261
Stockholders' Equity	410	1,710 (A) 40 (C) 50 (D) 3 (E) (12) (G)	2,201
Total Liabilities and Equity	$809	$1,995	$2,804

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(D) On November 15, 1988, the Company acquired a 12.5% interest in the net profits of a real estate general partnership for 263,158 shares of restricted stock, a $25,000 down payment and three payments of $25,000 each due January 1, 1989, March 1, 1989 and June 1, 1989, from an officer who joined the Company in November 1988.

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(F) On December 7, 1988, the board of directors approved the purchase of an office in New York from the President for a $94,000 down payment plus assumption of a $131,000 note. The cost of $225,000 approximates the amount originally paid for the office by the President.

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(G) On December 29, 1988, the Company's chairman resigned, at which time he agreed to repurchase certain assets recorded at predecessor cost of $12,311 in exchange for the return of 240,000 shares of the Company's stock. He also agreed to purchase licensing rights for the Phoenix Hydrocarbon Technology (Note 6) for $135,000 payable quarterly over a two-year period. If all payments are made on schedule, the rights to the technology will be transferred to the former chairman at the end of the two-year period.

ROTECH MEDICAL CORPORATION, JULY 31, 1988

RoTech Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements
Year Ended July 31, 1988

Note H. Related-Party Transactions

The Company sold the net assets of its RoTech Diagnostics, Inc., subsidiary to two former employees of the Company. See Note K — Discontinued Operations.

Subsequent to July 31, 1988 the Company entered into an agreement to sell the net assets of its Rotex Pharmaceuticals, Inc. (Rotex) subsidiary to its then vice-president and director and former major shareholder at net book value.

Note K. Discontinued Operations

On July 29, 1988, the Company sold all of the assets of its diagnostics services segment, RoTech Diagnostics, Inc. for approximately $1,200,000 in cash to the Company's then chief financial officer and another former employee. This disposal resulted in an after tax loss of approximately $688,000. Operating results of this business, prior to sale, are included in income from operations of discontinued businesses. Prior years' statements of operations and related footnotes have been restated to exclude the diagnostic services segment from continuing operations. Balance sheets reported for prior years have not been restated. The net revenue of RoTech Diagnostics, Inc. for 1988, 1987 and 1986 approximated $3,000,000, $4,900,000 and $3,800,000, respectively.

TPI ENTERPRISES, INC., DECEMBER 31, 1988

TPI Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

14. Related-Party Transactions

Chairman of the Board

On January 31, 1987, the Company's Chairman of the Board and Chief Executive Officer purchased substantially all of the furniture, fixtures and nonremovable improvements located in an apartment in New York City originally purchased by the Company. $149,000 of the purchase price of $1,012,156 was paid in cash and the balance is secured by a note which was payable in annual installments of $100,000 due on December 12, 1988, 1989 and 1990, respectively, with the balance due December 12, 1991. Since $500,000 of this note was paid in December 1988, the remaining balance is due December 12, 1991. Simple interest on the unpaid balance is being paid quarterly at the prime interest rate established from time to time by Chemical Bank and the rate is adjusted quarterly.

Note 10. Related-Party Transactions

During 1986, the Company purchased and subsequently sold to D. F. Antonelli, a Director of the Company, various real estate at a $239,000 profit to the Company.

V

TRANSACTIONS BETWEEN THE REPORTING ENTERPRISE AND AN ENTERPRISE WITH WHICH IT IS UNDER COMMON CONTROL OR SIGNIFICANT INFLUENCE

A transaction between the reporting enterprise and an enterprise of which the operations of both are controlled or significantly influenced by a third enterprise or person is a related-party transaction under SFAS 57. Fifty-two examples are presented in this chapter of disclosures between such related parties. The examples are classified according to the type of transaction that occurred.

LOAN OR DEBT GUARANTEES

BIOTHERAPEUTICS, INCORPORATED, APRIL 30, 1989

Notes to Consolidated Financial Statements
Biotherapeutics Incorporated and Subsidiaries
April 30, 1989

Note J. Related-Party Transactions

Biological Therapy Institute: A scientific director of the Company and former Chairman of the Board until January 1989 is a director of Biological Therapy Institute ("BTI"), a Tennessee non-profit corporation engaged in medical research.

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Pulse Publications, Inc.: BTI is also 65% owner of Pulse Publications, Inc. ("PPI"), a company primarily engaged in the publishing of two periodicals concerning cancer, COPE and COPING. Certain officers and directors of the Company are or have been officers and directors of PPI.

In March 1987, the Company entered into a guaranty agreement whereby it guaranteed a line of credit of $622,500 for PPI. The Company was required to secure the guaranty with a certificate of deposit. . . . In connection with the guaranty and. . . , the Company was granted warrants to purchase 2,205,000 shares of common stock of PPI at an exercise price of $.50 per share of which warrants to purchase 330,000 shares of common stock are exercisable before August 1990 and the remaining warrants are exercisable before August 1992.

PPI had a deficiency in assets of approximately $2,600,000 at April 30, 1989. Because of this deficiency in assets and the continued operating losses of PPI, the Company has established

reserves for the guaranty of $622,500 and. . . . This charge is included in the Statement of Operations caption, "Provision for other receivables and loan guarantee."

COPPERWELD CORPORATION, DECEMBER 31, 1988

Notes to Consolidated Financial Statements
Copperweld Corporation and Consolidated Subsidiaries

Note 7. Discontinued Operations and Related-Party Transactions

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Contingent Liabilities. Although they are separate entities, the Corporation is still contingently liable for certain obligations of CSC. Principal among these contingencies is the Corporation's guarantee of certain long-term debt commitments of CSC. Including the current maturities of this guaranteed debt, the total at December 31, 1988, was $6,075,000. The debt is payable through the year 2002 with interest rates between 7 3/4% and 13%.

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Related-Party Transactions. The Corporation and CSC are related parties because of Imetal's substantial stock interest in both corporations.

DI INDUSTRIES, INC., MARCH 31, 1989

DI Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(5) Borrowings

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Domestic Debt. The Company has a $1,450,000 note, with an outstanding balance at March 31, 1989 of $638,827, due April 24, 1992 with a domestic bank and bears interest at the bank's "base rate," which may vary, plus 1 1/4% (at March 31, 1989, the interest rate charged on this note was 13.50%). This note is to be repaid by monthly payments from 70% of the net proceeds from production as defined in the agreement with minimum annual principal payments of $384,000. This is secured by substantially all of the Company's oil and gas properties and a $250,000 certificate of deposit of the Company. In addition, the note is guaranteed by Dillco, Inc. ("Dillco"), a company owned by the family of the Company's principal officer and shareholder. As security for the guarantee, Dillco has given the bank a security interest in a $100,000 certificate of deposit. In fiscal 1989, the Company paid all amounts due as defined by the agreement. At March 31, 1989, $384,000 has been classified as current maturities.

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The agreements with the domestic bank contain affirmative and negative covenants. The Company is restricted, among other things, from: incurring additional debt, making investments, loans or advances; payment of dividends on common stock; incurring lease obligations above specified limitations; and selling or acquiring assets except within permitted limitations. In addition, the Company is required to maintain a current ratio of 1.2 to 1.0.

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(8) Related-Party Transactions

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During 1986, Dillco commenced work on a project for the U.S. Department of Energy Strategic Petroleum Reserve. The Company performed the drilling services for Dillco pursuant to a daywork contract and guaranteed a Letter of Credit for Dillco in return for a share of the profits. The Company commenced drilling operations on this project in June 1986. For fiscal 1987, $800,000 is included in contract drilling revenue from this project. Dillco has completed the project, paid the Company its share and the Company's guarantee for the Letter of Credit has been released.

FORD MOTOR CREDIT COMPANY, DECEMBER 31, 1988

Notes to Financial Statements

Note 1. Accounting Policies

. . . Ford Motor Credit is a wholly owned subsidiary of Ford Motor Company (''Ford'').

Note 9. Transactions With Affiliated Companies

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At December 31, 1988, Ford Credit had guaranteed $73 million of debt outstanding of other subsidiaries of Ford.

GENERAL MOTORS ACCEPTANCE CORPORATION, DECEMBER 31, 1986

Notes to Financial Statements

Note 13. Transactions With Affiliates

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. . . The Company also has guaranteed $250 million of debt to outside lenders for one General Motors subsidiary.

JOHNSON WORLDWIDE ASSOCIATES, INC., SEPTEMBER 30, 1988

Johnson Worldwide Associates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Change in Ownership

On January 7, 1986, Johnson Worldwide Associates, Inc. (JWA) purchased, from a subsidiary of S.C. Johnson & Son, Inc. (SCJ). . . .
. . . JWA and SCJ are controlled by the same majority shareholders.

●●●●

4. Notes Payable and Long-Term Obligations

Long-term obligations at the end of the respective periods consisted of the following:

	September 30, 1988	October 2, 1987	October 3, 1986
	(in thousands of dollars)		
. . . .	. . . .	. . . .	. . . .

	September 30, 1988	October 2, 1987	October 3, 1986
	(in thousands of dollars)		
Industrial revenue bond, 8.75%, due December 1987, guaranteed by SCJ		1,300	1,300
....	....	....	....

At September 30, 1988, certain subsidiaries had short-term bank credit facilities at interest rates that approximate prime aggregating $10,689,000, of which $3,890,000 was outstanding. Compensating balances and commitment fees are not significant. SCJ has guaranteed substantially all of these credit facilities for which a fee is paid to SCJ.

SUN COMPANY, INC., DECEMBER 31, 1988

Sun Company, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

2) Changes in Business

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The Distribution

On November 1, 1988, the Company distributed on a pro rata basis to holders of its issued and outstanding common stock (Sun Common Stock) substantially all of the issued and outstanding shares of common stock of Sun E&P Co., with no consideration being paid by such holders of Sun Common Stock (Distribution).

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12) Recourse Long-Term Debt

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In order to reduce the amount of Sun's recourse long-term debt guaranteed by Sun E&P, Sun purchased during 1988 $25 million principal amount of its 4 5/8 percent debentures and $40 million principal amount of its 8 1/2 percent debentures. The amounts purchased will be used to satisfy sinking fund requirements. At December 31, 1988, Sun E&P remains as a guarantor of $127 million principal amount of Sun's debt. Sun will pay Sun E&P annually a guarantee fee at market rates on this outstanding indebtedness.

INCOME TAX CONSOLIDATED RETURN

ANADARKO PETROLEUM CORPORATION, DECEMBER 31, 1988

Anadarko Petroleum Corporation
Notes to Consolidated Financial Statements
Years Ended December 31, 1988, 1987, and 1986

1. Summary of Accounting Policies

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Anadarko was organized in 1985 as the successor to the oil and gas business of Anadarko Production Company (Production), which was founded in 1959 as a subsidiary of Panhandle Eastern Corporation (PEC). Anadarko was spun off to PEC stockholders of record on September 12, 1986.

Under PEC's tax allocation policy and the Tax Sharing Agreement, the Company is entitled to reimbursements from PEC for tax savings the Company generated which were utilized in PEC's consolidated return. At December 31, 1988, $7,100,000 of these reimbursements is included in current accounts receivable. In addition, the Company is entitled to the benefit of tax deductions and credits generated by the oil and gas operations of its predecessor, Production, to the extent these amounts are utilized in PEC's consolidated return. At December 31, 1988, $8,500,000 relating to these benefits is included in deferred income taxes. The Tax Sharing Agreement between PEC and the Company was entered into in connection with the spin-off. See Note 12.

NYCOR, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

2) Transactions With Fedders

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*Certain officers and directors of the Company are also officers and directors of Fedders and have significant stockholdings in both companies.

●●●●

*The Company entered a tax-sharing agreement with Fedders (note 5).

5) Income taxes

At December 31, 1988, the Company had operating loss carryforwards for both tax and financial statement purposes in excess of $73,000,000. The loss carryforwards expire from 1991 through 1998. The Company entered into a tax-sharing agreement with Fedders, under which the Company elected to have its operating results from January 1, 1987 to January 27, 1987 included in the consolidated federal income tax return of Fedders. Under the terms of the tax-sharing agreement, the Company received a benefit of $1,356,000 from Fedders' utilization of approximately $7,000,000 of the Company's loss carryforwards. The Company's provision for income taxes has been reduced by $1,356,000 in 1988 reflecting this benefit.

SUN COMPANY, INC., DECEMBER 31, 1988

Sun Company, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

2) Changes in Business

●●●●

The Distribution

On November 1, 1988, the Company distributed on a pro rata basis to holders of its issued and outstanding common stock (Sun Common Stock) substantially all of the issued and outstanding shares of common stock of Sun E&P Co., with no consideration being paid by such holders of Sun Common Stock (Distribution).

●●●●

5) Income Taxes

●●●●

In conjunction with the Distribution (Note 2), Sun and Sun E&P have joined or will join in the filing of consolidated federal income tax and state unitary income tax returns for 1987 and the ten-month period ended October 31, 1988. Sun E&P has been or will be charged or credited with its allocable share of the consolidated federal income tax and state unitary income tax liability or benefit for each tax period prior to the date of the Distribution. Recognizing that the amounts upon which such charges or credits are based may be adjusted by the Internal Revenue Service or state taxing authorities, the Distribution Agreement provides that Sun E&P's share of any consolidated federal income tax audit adjustments for periods prior to the Distribution will be reimbursed to Sun by Sun E&P or reimbursed to Sun E&P by Sun, as the case may be. Similar adjustments will apply in the event that amended consolidated federal income tax or state unitary income tax returns or refund claims for such taxes are filed. The tax accruals of Sun and Sun E&P were adjusted upon the Distribution to reflect the allocation of liabilities provided for in the Distribution Agreement as between Sun and Sun E&P.

LEASE ARRANGEMENTS

ALFA INTERNATIONAL CORP., JULY 31, 1988

Alfa International Corp.
Notes to Financial Statements

Note 2. Related-Party Transactions:

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Leases—The Company rents its office space on a month to month basis from C & R Condominium Associates. The Company's President owns 50% of this entity. The Company shares expenses with the other 50% owners of the premises and pays rent equal to 50% of the mortgage on the premises. Beginning in February 1988, the Company is subleasing additional office space in the same facility. Minimum future lease payments are $16,800 and $1,400 for the years ending July 31, 1989 and 1990, respectively. Rent expense was $16,198, $5,026 and $2,206 for the years ended July 31, 1988, 1987 and 1986, respectively.

CARME, INC., JULY 31, 1988

Carme, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended July 31, 1988, 1987, and 1986

2. Related-Party Transactions:

Leases: The Company leases its manufacturing facilities on an annual basis from a corporation owned by the Company's President. Related lease payments were $121,200 for both years ended July 31, 1988 and 1987, and $91,800 for the year ended July 31, 1986 (Note 9).

The Company leases manufacturing equipment under capital leases from Creekwood Finance, a company 50%-owned by the Company's Vice President and General Manager. Lease payments were $40,727 and $42,270 for the years ended July 31, 1988 and 1987, respectively.

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Other current assets: At July 31, 1988 and 1987, other current assets include lease deposit from Creekwood Finance of $7,069 and $6,645, respectively.

COSMETIC & FRAGRANCE CONCEPTS, INC., SEPTEMBER 30, 1988

Cosmetic & Fragrance Concepts, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(8) Related-Party Transactions.

The Company leases its Beltsville, Maryland executive offices, distribution center, and store from a partnership that is owned 35.67% by the chairman of the board of directors and a director of the Company. Lease payments made to the partnership during fiscal years 1988, 1987, and 1986, were approximately $155,800, $151,600, and $149,200, respectively.

DESIGNATRONICS, INCORPORATED, AUGUST 31, 1988

Notes to Consolidated Financial Statements
August 31, 1988, 1987, and 1986

Note 3. Long-Term Debt

Long-term debt is summarized as follows:

	August 31, 1988		August 31, 1987	
	Due Within One Year	Due After One Year	Due Within One Year	Due After One Year
....	....	....	....	....
Capitalized lease (b)—related party, due in October 1987, payable in monthly installments at an interest rate of 15%. Collateralized by the leased equipment.			1,969	
....	....	....	....	....

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Note 5. Commitments and Contingent Liabilities

a. Lease Commitments.

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During the year ended August 31, 1987, the Company entered into various operating leases with an entity whose principal owners are officers of the Company. Payments relating to these leases were $43,350 and $26,150 for the years ended August 31, 1988 and 1987, respectively.

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b. The Company had various capitalized lease obligations with an entity whose principal owners are officers of the Company. Payments relating to these leases were $2,145, $57,219, and $128,617 in 1988, 1987, and 1986, respectively.

EA ENGINEERING, SCIENCE, AND TECHNOLOGY, INC., AUGUST 31, 1988

EA Engineering, Science, and Technology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For The Years Ended August 31, 1988, 1987, and 1986

Note 8. Lease Commitments:

EA's central office, laboratory facilities, and regional offices are held under operating leases. These leases expire at various dates through fiscal 1995. Certain of the leases call for proportionate increases due to property taxes and certain other expenses. Rent expense amounted to $1,079,700,

$550,800, and $206,000 for the years ended August 31, 1988, 1987, and 1986, respectively. Rent expense included payments of approximately $622,000 and $275,000 for fiscal years 1988 and 1987, respectively, to partnerships consisting of the Chairman of EA and certain members of his family for its central office and certain regional and analytical laboratory facilities (see Note 10).

EA-Mueller leases office space at its Baltimore, Maryland location from The Mueller Partnership. The lease has an initial term of ten years commencing September 1, 1982, and an option to renew for two additional five-year periods. The lease requires monthly payments of approximately $18,800, with annual adjustments for increases in the cost of living index. As lessee, EA-Mueller is required to pay all taxes and operating expenses. This lease is accounted for as an operating lease. For the six months ended August 31, 1988, rent expense included payments of approximately $112,900 to a partnership in which EA-Mueller's president and certain other officers of EA-Mueller have a substantial interest.

●●●●

Note 10. Capital Leases:

Effective December 1, 1986, EA negotiated a new lease on its central office and laboratory facilities which were previously held under a 27-year capital lease with a partnership consisting of two officers, who are also directors and stockholders of the company. The new lease reduced the original lease term to 76 months with three renewal option periods of five years each beginning December 1, 1986. The reduction in the term changed the classification of the lease from a capital lease to an operating lease. As a result, EA recorded approximately $270,000 as deferred income representing the difference between the capital lease obligation and the net book value of the property under capital lease at December 1, 1986. This amount is being amortized over five years.

THE GOOD GUYS, INC., SEPTEMBER 30, 1988

The Good Guys, Inc.
Notes to the Financial Statements

4. Leases

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The Company entered into a sublease agreement for a portion of one of its stores, as sublessor, with a company of which the President is also a member of the Company's Board of Directors. The sublease expires on July 31, 2003 and provides for additional rent increases based on the consumer price index. The Company believes that the terms of the sublease agreement are not less favorable to the Company than could be obtained from an unaffiliated third party. Under the terms of the sublease agreement, the Company received $43,750 in sublease income during the year ended September 30, 1988.

HADCO CORPORATION, OCTOBER 29, 1988

HADCO Corporation and Subsidiaries
Notes to Consolidated Financial Statements
October 29, 1988

9. Leases

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Operating Leases

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These operating leases include office and manufacturing space leased from a partnership in which certain officers and directors of the Company have an interest. These leases are for terms of one to ten years, with options to renew through 2004. For the fiscal years ended October 1988, 1987 and 1986, the related rental expense was approximately $473,000, $473,000 and $454,000, respectively.

VICORP RESTAURANTS, INC., OCTOBER 30, 1988

Notes to Consolidated Financial Statements

5. Leases

Of the properties leased by the Company, 13 are owned by a partnership in which Mr. Miles and Robert J. Donaldson, vice-chairman and a director of the Company, are partners. Total rentals paid by the Company to the partnership for 1988, 1987 and 1986 were $ 785,000, $782,000 and $768,000, respectively.

LOANS AND ADVANCES

BALDWIN & LYONS, INC., DECEMBER 31, 1988

Baldwin & Lyons, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note J. Operating Expenses

During 1986 the Company repaid $8,000,000 of short-term borrowings under an unsecured line of credit. Borrowings under this line of credit were charged interest at a floating rate based upon the bank's prime rate of interest as announced from time to time. The average rate charged for 1986 was approximately 9.0%. A director is Chairman of the Board of Directors of the bank from which the funds were borrowed. The Company no longer maintains this line of credit.

CAMBEX CORPORATION, AUGUST 31, 1988

Cambex Corporation
Notes To Financial Statements
August 31, 1988

(7) Related-Party Transactions

In settling its product line acquisition payable, discussed in Note 5, the Company borrowed $350,000 from a corporation that is owned by an Officer/Director's son and $50,000 from a Director. The loans were payable on demand, secured by accounts receivable and had interest rates of 12%. Also, the lenders received warrants to purchase 200,000 shares of the Company's common stock at $1.125 per share. All amounts outstanding under these loans were repaid prior to August 31, 1988.

Subsequent to year end, the Company borrowed $150,000 from a corporation that is owned by an Officer/Director's son and $25,000 each from two Directors. The loans are payable on demand, secured by accounts receivable and bear interest at a rate of 12%. Also, the lenders received warrants to purchase 100,000 shares of the Company's common stock at $1.125 per share.

COPPERWELD CORPORATION, DECEMBER 31, 1988

Copperweld Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

Note 7. Discontinued Operations and Related-Party Transactions

Related-Party Transactions. The Corporation and CSC are related parties because of Imetal's substantial stock interest in both corporations.

The Corporation also has a $20,000,000 note receivable from CSC. This represents financing previously provided to CSC by the Corporation while it was a subsidiary. The contractual terms of the note require annual principal payments beginning in March of 1988 at $1,500,000 through 1992, $2,000,000 through 1996, followed by a final principal payment of $4,500,000 in 1997. Additionally, quarterly interest payments which commenced on March 31, 1987 are required.

The first note installment, which was due in March of 1988 was not paid by CSC. Additionally, interest payments have not been received since the first quarter of 1988. Management of both entities have entered into negotiations to restructure the note. The note amounts are set forth in the financial statements based upon proposed terms which defer principal payments until June of 1991 and all interest payments until the first quarter of 1990. All amounts deferred would continue to accrue interest which is recognized as income at 9.6%. Interest earned and recorded, related to this obligation was $1,920,000 in both 1988 and 1987. The unpaid, accrued interest at December 31, 1988 was $1,440,000. The ultimate resolution of these negotiations cannot be predicted at this time. The Corporation previously subordinated its rights under this note to those of the lender to CSC as a precondition to CSC receiving external financing.

The note's realization will be directly affected by CSC's future cash flows. Published reports indicate that there was substantial progress in 1988 related to increased sales at CSC. Additionally, profitability gains were achieved in 1988 as CSC reported net income of $3,176,000 as compared to a restated 1987 net loss of $7,908,000.

DIRECT PHARMACEUTICAL CORPORATION, SEPTEMBER 30, 1988

Direct Pharmaceutical Corporation
Notes to Consolidated Financial Statements

(13) Related-Party Transactions

In November 1987, the Company entered a financing agreement with SC Pharmaceutical, L.P. (''SCP''), an entity in which the controlling stockholder of the Company (Mr. R. T. Matthews through shares beneficially owned and shares beneficially owned by entities controlled by Mr. R. T. Matthews. Mr. Matthews' control of the Company through shares beneficially owned was reduced to 48.5% as the result of a private sale of Company stock by an entity controlled by him during September, 1988.) is general partner and has a limited partnership investment. The agreement provides for borrowings of up to $750,000 from SCP in the form of a note, collateralized by accounts receivable and inventory. In November and December of 1987, the Company had borrowed $128,000 under the note. The entire borrowing was subsequently repaid in December, 1987, through the assignment of a $176,200 certificate of deposit to SCP. Consequently, an amount of $48,200 is due from SCP at September 30, 1988, and an additional $14,700 loaned to SCP is included in accounts receivable—affiliates. Of this amount, SCP repaid $48,200 subsequent to year end. The Company has recognized interest income of approximately $7,000 in 1988 on this receivable.

On August 26, 1987, SPU Corporation (SPU), a corporation 50% owned by Midwest Capital, a company controlled by the controlling stockholder, purchased 2,500,001 shares of the Company for $800,000 cash. As part of this transaction, the Company repaid to Midwest Capital its $500,000 loan,

plus interest together with certain management fees and expenses incurred by Midwest Capital on behalf of the Company. Assuming this transaction occurred on May 12, 1987, (the date of the loan) pro forma loss per share for 1987 would have been $(0.74) restated, after giving effect to the issuance of common stock in the amount of the Midwest Capital loan repaid. As a result of this purchase, SPU became the beneficial owner of 52.08% of the issued and outstanding shares of common stock of the Company.

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In April, 1988, the Company entered into a loan agreement with Direct Credit, L.P., a partnership which was formed by the Company's controlling stockholder. The agreement provides the Company with the ability to borrow funds from Direct Credit, L.P. and the Company will offset the loan with payment of certain expenses for Direct Credit, L.P. related to the formation and start-up of the entity. At September 30, 1988, the Company had borrowed $361,062 under the note and had expended and paid $242,037 on behalf of Direct Credit, L.P. The net amount of $119,025 is recorded as due to affiliates. The note bears interest at a rate of prime plus 2%.

EDUCATIONAL DEVELOPMENT CORPORATION, FEBRUARY 28, 1989

Notes to Financial Statements
Years Ended February 28, 1989, February 29, 1988, and February 28, 1987

D. Notes Payable and Other Obligations and Long-Term Debt

Notes payable and other obligations at February 28, 1989 and February 29, 1988 consist of the following:

	1989	1988
....	....	....
Subordinated debenture agreement with related party; interest payable monthly at 15.75%; collateralized by substantially all assets of the Company and subordinated to the revolving credit agreement	50,000	100,000
....	....	....

●●●●

Borrowings under a subordinated debenture agreement are with a corporation of which a Company director was a former officer. They include a $275,000 note due September 9, 1991 with interest payable quarterly at 13% and a $50,000 note reflected in the table above. The subordinated debenture agreement places restrictions on payments of dividends, acquisitions by the Company of outstanding shares of stock and issuance of additional shares of stock or indebtedness, acquisition of capital assets and requires the maintenance of a specified amount of shareholders' equity. Interest expense on these notes was approximately $49,000 in 1989 and $42,000 in 1988. The subordinated debenture agreement is secured by substantially all the assets of the Company and is subordinated to the bank debt.

In connection with the subordinated debenture agreement, the Company issued to the debenture holder 100,000 shares of Company common stock. The holder of the shares issued has the right to put the shares back to the Company at a price per share based on a multiple of the earnings per share from the preceding year. The put option is exercisable for a period of five years commencing in September 1991 and terminates in the event the Company's market price per share of stock equals or exceeds $2.50 per share at any time prior to September 1991. The Company also issued warrants for the right to purchase an additional 100,000 shares of the Company's stock which can be exercised at any time through September 1991 at a price of $.50 per share.

FIRST EASTERN CORP., DECEMBER 31, 1988

Notes to Consolidated Financial Statements

14. Related-Party Transactions

Certain directors of the Company, through the Monroe County Industrial Development Authority, provided financing for the 1978 construction of the Mountainhome Office. The Company's interest payments on the obligation amounted to $21 in 1988, $22 in 1987 and $22 in 1986.

NYCOR, INC., DECEMBER 31, 1988

Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

2) Transactions With Fedders

*Certain officers and directors of the Company are also officers and directors of Fedders and have significant stockholdings in both companies.

*On December 2, 1988, Fedders, Inc., a subsidiary of Fedders, borrowed $19,367,000 from the Company. The note provides for payment of the entire principal in 1993 with interest payable quarterly at 13 3/4%.

VERTEX COMMUNICATIONS CORPORATION, SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements
September 30, 1988

(2) Long-Term Debt

As of September 30, 1988 and 1987, long-term debt consisted of the following:

Term note payable to a bank bearing interest at prime plus 3/4 of one percent, principal payments of $500,000 due each December through 1990, and $1,000,000 due in December, 1991.

	1988	1987
	$2,500,000	$3,000,000
Less: Current portion	500,000	500,000
	$2,000,000	$2,500,000

The term note is secured by equipment and real property. The covenants of the note, among other things, require the Company to maintain certain financial ratios, restrict additional debt, limit expenditures for capital assets, and limit cash dividends to no more than 50 percent of net income.

(6) Related-Party Transactions

The Company maintains its principal banking relationship, including its term note as discussed in Note 2, with a bank which is an affiliate of a shareholder.

CAPITAL STOCK TRANSACTIONS

BALDWIN & LYONS, INC., DECEMBER 31, 1988

Baldwin & Lyons, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note B. Investment Operations

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Substantially all purchases and sales of investments during the three years ended December 31, 1988 were made through securities broker-dealers in which certain directors of the Company were officers, directors or owners.

THE COCA-COLA COMPANY, DECEMBER 31, 1988

The Coca-Cola Company and Subsidiaries
Notes to Consolidated Financial Statements

3. Investments in and Advances to Affiliated Companies.

●●●●

Coca-Cola Enterprises Inc.: On September 12, 1986, the Company transferred the operating assets of substantially all Company-owned bottling companies in the United States to Coca-Cola Enterprises Inc. (CCE), a wholly owned subsidiary.

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In December 1988, CCE sold one of its bottling subsidiaries and recorded a pretax gain of approximately $104 million. The purchaser is a bottling company which is 22 percent owned by the Company.

●●●●

ENDEVCO, INC., DECEMBER 31, 1988

Endevco, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1988, 1987, and 1986

9. Transactions With Related Parties

In December, 1988, the Company, through a newly-formed subsidiary, Dubach Gas Company, ("Dubach"), purchased. . . .

Upon formation. . . , Dubach also issued 10,000 shares of its common stock (representing the remaining 10% of the total outstanding common stock of Dubach) to Cypress Equity Holdings, Ltd., a Texas limited partnership ("Cypress"), for an aggregate purchase price of $250,000 in cash. The general partner of Cypress is The Lewis Company, a Texas general partnership. One of the general partners of The Lewis Company is John P. Lewis, who is also a director of the Company. The sole limited partner of Cypress is John Lewis & Associates, L.P., a Texas limited partnership ("JLA") of which Mr. Lewis is general partner. . .

The Company has an option (the "Call Option") to purchase the shares owned by Cypress for a formula-derived price based on cash flow, but not less than $1.12 million, and Cypress has an option (the "Put Option") to sell its shares to the Company for a formula-derived price based on cash flow, with no minimum amount payable by the Company. The Company has the right to exercise its Call Option commencing April 1, 1992 through March 31, 1993, or at an earlier date if

certain events occur, and Cypress has the right to exercise its Put Option commencing January 1, 1991 through December 31, 1993, or at an earlier date upon the occurrence of certain events.

FERTILITY AND GENETICS RESEARCH, INC., SEPTEMBER 30, 1988

Fertility and Genetics Research, Inc.
(A Company in the Development Stage)
Notes to Consolidated Financial Statements
September 30, 1988

Note F. Capital Stock

During April 1985, the Company completed a private sale of 100,000 shares of Common Stock at a price of $ 2.50 per share. The purchaser was a corporation whose Chairman of the Board is a shareholder. Another director of the purchaser is a shareholder and Chairman of the Board of the Company.

JOHNSON WORLDWIDE ASSOCIATES, INC., SEPTEMBER 30, 1988

Johnson Worldwide Associates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Change in Ownership

On January 7, 1986, Johnson Worldwide Associates, Inc. (JWA) purchased, from a subsidiary of S.C. Johnson & Son, Inc. (SCJ), all of the outstanding capital stock of Johnson Diversified, Inc. (JDI) formerly known as Johnson Wax Associates for total consideration of $80,000,000 consisting of (i) $66,666,600 in cash, (ii) 100,000 shares of senior preferred stock of JWA and (iii) 33,334 shares of convertible preferred stock of JWA. JWA partially financed the acquisition with bank borrowings made by JDI.

Since JWA and SCJ are controlled by the same majority shareholders, the consolidated financial statements reflect JDI's accounts and operations on a continuing historical basis and include JWA's accounts and operations from its date of incorporation, December 9, 1985.

SAVIN CORPORATION, DECEMBER 31, 1988

Savin Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars except where noted and per-share amounts)

20. Related-Party Transactions

Transactions With Officers and Directors

Mr. Roderick D. Marcoux, a former Savin executive who was a Director of the Company in 1986, is a principal, along with another former Savin employee, of a joint venture dealership with Savin, Better Office Systems, Inc. ("BOS") doing business in California as Savin East Bay. In April 1987, BOS purchased the 30% equity interest of BOS formerly held by the Company.

TELECOM CORPORATION, DECEMBER 31, 1988

Telecom Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(2) Acquisitions:

Wholesale Distribution. Effective November 1, 1986, the Company acquired all of the equity securities of A. L. Investors, Inc., a Texas corporation doing business as Allen-Lewis Manufacturing Company in Denver, Colorado. . . .

The purchase price consisted of $1,225,000 cash paid at closing (of which $150,000 was paid to a company owned by a former director of the Company) and $850,000 of reduced principal and interest on certain secured notes receivable from a company owned by a former director of the Company. . . . At the time of the acquisition, the former director was still a director of the Company. The consideration given was determined as a result of negotiations among the parties involved.

TRANS WORLD AIRLINES, INC., DECEMBER 31, 1988

Trans World Airlines, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

3. Investments:

Commencing in October 1987 and continuing through January 1988, TWA, through a wholly owned subsidiary, purchased an aggregate of 29,513,350 shares, or approximately 12% of the outstanding shares, of common stock of Texaco Inc. ("Texaco Shares") at an aggregate cost of approximately $979.3 million.

Texaco and shares of Pennzoil Company owned or controlled by TWA were sold by TWA to ACF Industries, Incorporated (ACF), an affiliate of Carl C. Icahn, Chairman of the Board of TWA, at a price equivalent to the prevailing market value at that date. A gain of $29,494,000, included in investment income for 1987, was recognized by TWA as a result of this sale with the cost of the securities sold determined on an average cost basis. Approximately $148,566,000 of the cash proceeds were received in December 1987 and the balance of $197,250,000, paid to TWA in January 1988, is included in TWA's balance sheet at December 31, 1987 as an account receivable from an affiliated company. As of December 31, 1987, TWA owned 14,990,250 shares of common stock of Texaco Inc., with an aggregate cost to TWA of approximately $494,400,000. Pursuant to a contract dated October 23, 1988, TWA's remaining investment in Texaco common stock was sold to an entity affiliated with Mr. Icahn for a purchase price of $45 1/4 per share, the last price for such shares as reported on the NYSE consolidated tape prior to such date. A gain, net of related interest expense, of $140,595,000 recognized by TWA as a result of this sale is included in investment income for the ten months ending October 31, 1988.

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TWA Investment Plan, Inc. (Investment), a wholly owned subsidiary of TWA, is. . . both a general and limited partner of a Connecticut limited partnership in which it has an approximate 87% interest and is a general partner of another Connecticut limited partnership in which it has an approximate 48.5% interest. . . . Investment acquired such partnership interests on December 30, 1988 from affiliates of ACF for an aggregate price of $27.2 million, which represented the fair market value thereof as of that date. The other general partner of the partnerships is Heron Investors Plan, Inc., a Delaware corporation which is the parent corporation of ACF.

TRANSACTIONS INVOLVING PRODUCTS OR SERVICES

ADVANCED MAGNETICS, INC. SEPTEMBER 30, 1988

Notes to Consolidated Financial Statements

O. Related-Party Transactions:

During the fiscal year ended September 30, 1988, the Company paid approximately $42,000 to Josephthal and Co., Inc. as commissions in transactions involving its investments in securities. Mr. Leslie Goldstein, a member of the Company's Board of Directors and the brother of Jerome Goldstein, Chairman of the Board, President and Treasurer of the Company, is employed by SRG Associates, a division of Josephthal and Co., as an investment analyst and advisor.

BAYOU STEEL CORPORATION, SEPTEMBER 30, 1988

Bayou Steel Corporation
Notes to Financial Statements

(11) Related-Party Transactions

Service Agreement with a Related Party: The Company and a related party controlled by a stockholder entered into a Service Agreement dated September 5, 1986 (the Service Agreement), pursuant to which the related party provides certain assistance and services (research and development, industrial and labor relations, engineering, legal, etc.) to the Company for a fee equal to the related party's direct costs of performing such services. Costs charged for these services were approximately $126,000 for the year ended September 30, 1988, $228,000 for the year ended September 30, 1987 and $17,000 for the twenty-six day period ended September 30, 1986. The Service Agreement is to remain in effect until terminated by either the Company or the related party on 90 days prior written notice to the other party.

BIG BEAR, INC., AUGUST 27, 1988

Notes to Consolidated Financial Statements
Fiscal Years Ended August 27, 1988, August 29, 1987, and August 30, 1986
(all dollar amounts in thousands, except per share amounts)

F. Related-Party Transactions

The Company is a member of Topco Associates, Inc. ("Topco"), a cooperative purchasing organization. Certain purchases are made from Topco or placed with other suppliers through Topco. Payments on purchases from Topco were approximately $105,000, $94,000 and $93,000 for fiscal years 1988, 1987 and 1986, respectively. Purchases placed through Topco are paid directly to the suppliers. The president of the Company is a member of the board of directors of Topco. The Company's investment in Topco was $273 at August 27, 1988. Under the terms of the Topco bylaws, its board of directors may levy assessments on the members as necessary.

CHARTER MEDICAL CORPORATION, SEPTEMBER 30, 1988

Charter Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Merger

On August 4, 1988, the Company's stockholders adopted an Agreement of Merger.

. . . As a result of the Merger, William A. Fickling, Jr., Chairman and President of the Company, and certain members of his family (the "Family Group"), hold approximately 32% of the Company's Class B Common Stock. . . .

Mr. Fickling, Jr. owns, either directly or beneficially, a majority of the capital stock of Beech Street Holdings, Inc. ("Beech Street"). Beech Street, through subsidiaries, provides third-party administration services, utilization review services and operates Preferred Provider Organizations ("PPO's") in various states. In April 1987, the Company entered into an agreement with Beech Street whereby Beech Street provides third-party administration and utilization review services for the Company's self-insured medical plans. These plans provide medical and dental insurance coverage to the Company's employees. The Company paid approximately $664,000 and $237,000 to Beech Street during fiscal 1988 and 1987, respectively, for such services and for health claims evaluation services.

In July 1987, the Company entered into an agreement with Beech Street whereby the Company's employees and their covered dependents may utilize a Beech Street PPO. The Company pays Beech Street 3.2% of the charges (which amount aggregated approximately $213,000 during fiscal 1988) by the hospitals providing service through the Beech Street PPO.

The Company has also entered into agreements with Beech Street whereby certain of the Company's hospitals provide services to employers (and their related employee and covered dependent groups) who have entered into agreements with Beech Street to utilize a Beech Street PPO for hospital and other healthcare services. Such agreements provide for covered services to be rendered under terms (including discounts from the hospitals' normal charges) which management of the Company believes are customary for hospital PPO agreements. The Beech Street PPO reviews claims and serves as an intermediary between the Company's hospitals and the contracting employers. The Company derived approximately $4,237,000 and $572,000 in revenues from these agreements during fiscal 1988 and 1987, respectively. The aggregate discount from customary charges was 21% in 1988 and 31% in 1987.

The Company utilizes the services of Norrell Health Care, Inc. (a home healthcare and temporary healthcare employment company) primarily for purposes of providing temporary staffing at certain of its hospitals. K. W. Slayden, a Director of the Company until September 1, 1988, is the President and Chief Operating Officer of Norrell Health Care, Inc. ("Norrell"). The Company paid approximately $342,000 to Norrell for such services during fiscal 1988.

Drexel Burnham Lambert, Inc. ("Drexel"), of which Stanley S. Trotman, Jr., a Director of the Company since 1978, is a Managing Director, serves as the regular investment banker for the Company. During fiscal 1988, Drexel received approximately $29,795,000 from the Company as underwriting fees in connection with the issuance in September of $240,000,000 of Senior Discount Notes; $355,000,000 of Senior Subordinated Debentures; $200,000,000 of Subordinated Debentures; and 500,000 shares of Series A Preferred Stock. Additionally, Drexel received $4,000,000 in financial advisory and consent solicitation fees in connection with the Merger. The Company has agreed with Drexel that for a period of two years after September 1, 1988, the Company will give Drexel favored consideration to act as exclusive agent for divestitures of any assets or subsidiaries and will retain Drexel as the Company's exclusive underwriter or private placement agent on any financings or refundings of any securities previously placed or underwritten by Drexel.

THE COLONIAL BANCGROUP, INC., DECEMBER 31, 1988

The Colonial BancGroup, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
For the Years Ended December 31, 1988, 1987, and 1986

15. Related Parties

BancGroup was under common control at December 31, 1988 with an affiliated entity, The Colonial Company and its subsidiaries. . .

Most of the insurance coverage for vendor single interest, credit life, and accident and health insurance is provided to customers of BancGroup's subsidiary banks by subsidiaries of The Colonial Company. Premiums collected from customers and remitted to The Colonial Company on such insurance were approximately $3,216,000, $3,041,000, and $3,223,000 in 1988, 1987, and 1986, respectively.

EPITOPE, INC., SEPTEMBER 30, 1988

Notes to Financial Statements

Note 6. Common Stock

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Common Stock Issued for Services. On January 1, 1987, the Company issued 42,000 shares of common stock with a fair value of $1.87 per share to a related partnership pursuant to an agreement for consulting services to be rendered through December 31, 1991. One partner of the partnership is also an officer of the Company (Note 10). An additional 42,000 shares are to be issued on January 1, 1989, in connection with the agreement. As the consulting services are rendered, the Company records compensation expense in an amount equivalent to the fair value of the shares issued in exchange for such services. During the year ended September 30, 1987, consulting expense of $78,750 was incurred and recognized in the accompanying consolidated 1987 statement of operations. No services were rendered during fiscal 1988.

Note 10. Related-Party Transactions

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In connection with the merger of AGS with and into Agritope, Inc. (Note 3), the Company issued 33,321 shares of its common stock to an officer of the Company. As described in Note 6, the Company has a separate consulting agreement with a partnership of which one partner is the same officer of the Company. The Company issued 42,000 shares of common stock to the partnership in exchange for services unrelated to Agritope operations during fiscal 1987. Through his partnership interest, the officer has beneficial ownership of these shares.

GOLDTEX, INC., JULY 24, 1988

Notes to Consolidated Financial Statements

8. Commitments

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The Company receives management and accounting consultation services from a company related through common ownership under a continuing agreement which may be cancelled by either party upon 30 days' written notice. Total expense under this agreement was approximately $118,000, $120,000 and $76,000 for the years ended July 27, 1986, July 26, 1987, and July 24, 1988, respectively. The minimum monthly fee due under this agreement is approximately $6,350.

NS GROUP, INC., SEPTEMBER 24, 1988

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of NS Group, Inc. and its wholly owned subsidiaries (the Company): Newport Steel Corporation (Newport).

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Note 5. Related-Party Transactions

One of the Company's directors/shareholders has a controlling interest in a company which purchases certain reject and limited service pipe from Newport. Sales to this customer amounted to approximately $18,262,000, $10,741,000 and $6,604,000 for the fiscal years 1988, 1987 and 1986, respectively. Additionally, Newport had trade receivables from this customer of $595,000 and $1,120,000 at the end of fiscal 1988 and 1987, respectively.

ROLLINS ENVIRONMENTAL SERVICES, INC., SEPTEMBER 30, 1988

Rollins Environmental Services, Inc.
Notes to the Financial Statements

Transactions With Related Parties

Prior to August 2, 1982, the Company was a wholly owned subsidiary of RLC CORP. Certain directors and officers of the Company also are directors and officers of RLC CORP.

The Company provided chemical waste treatment services to a subsidiary of RLC CORP. and realized revenues therefrom of $312,000 in 1988, $491,000 in 1987 and $768,000 in 1986.

The Company also purchased materials (principally fuel for its vehicles), and services (including bulk transportation and data processing services) and rented office space and transportation equipment from RLC CORP. and its subsidiaries. The aggregate cost of these materials, services and rents, which have been included in operating expense or selling and administrative expense, as appropriate, in the Consolidated Statement of Earnings, was $4,331,000 in 1988, $3,574,000 in 1987 and $3,903,000 in 1986. . .

In the opinion of management of the Company, the foregoing transactions were effected at rates which approximate those which the Company would have realized or incurred had such transactions been effected with independent third parties.

PURCHASE OR SALE, OTHER

CHAPARRAL RESOURCES, INC., NOVEMBER 30, 1988

Chaparral Resources, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note D. Issuance of Common Stock and Common Stock Options

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Stock Issuances to Related Parties. In 1988, the Company issued 250,000 shares of restricted common stock to Gower Oil Company as partial consideration in the acquisition of oil and gas properties. For purposes of this transaction, the stock was valued at $.375 per share which represented 75% of its market value on the date of the transaction. Gower Oil Company is owned by a director of the Company.

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Note G. Related-Party Transactions

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The Company acquired interests in oil and gas properties for $175,000 cash and 250,000 shares of common stock from a Company owned by a director (see Note D, Stock Issuances to Related Parties).

THE COLONIAL BANCGROUP, INC., DECEMBER 31, 1988

The Colonial BancGroup, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
For the Years Ended December 31, 1988, 1987, and 1986

15. Related Parties

BancGroup was under common control at December 31, 1988 with an affiliated entity, The Colonial Company and its subsidiaries. . . .

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In 1988, certain subsidiaries of BancGroup purchased approximately $27,000,000 of residential mortgages from a subsidiary of The Colonial Company. Fees earned by BancGroup on these loans in 1988 approximated $297,000.

ENTOURAGE INTERNATIONAL, INC., SEPTEMBER 30, 1988

Entourage International, Inc. and Subsidiary
Notes to Consolidated Financial Statements
September 30, 1988 and 1987

(3) Business Combinations

Biogime. On September 30, 1987, the Company acquired from Scientia the inventory and operations, but none of the liabilities, of Scientia's Biogime division, which marketed, through a network of independent distributors, a line of skin care and health food products including the Metrin skin care system. The Company paid Scientia $200,659 for the business, which represented the historic cost of the Biogime products held in inventory or in transit on the purchase date. The purchase price was paid with cash and a promissory note to Scientia. The acquisition has been accounted for as a purchase and the purchase price has been assigned to the inventory acquired based on historic cost, which approximates fair market value.

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Media Group Division. On June 30, 1986, the Company completed its acquisition of the assets of North Country Media Group, Inc. for the cash purchase price of $900,000 and the assumption of liabilities of $169,933.

The acquisition was accounted for in a manner similar to a pooling of interests, since the companies were deemed to be under common management control and, accordingly, the financial statements were restated to include the results of North Country Media Group, Inc. prior to the acquisition for all periods presented. Transactions between the Company and North Country Media Group, Inc. were eliminated and certain conforming statement reclassifications were made. North Country Media Group, Inc. had a fiscal year end of November 30, while the Company has a September 30 fiscal year. The restated statements of operations for September 30, 1986 include North Country Media Group, Inc.'s results of operations for the seven months ended June 30, 1986.

●●●●

(5) Long-Term Debt

Long-term debt at September 30, 1988 and 1987 consisted of the following (excluding long-term debt of discontinued operations):

	1988	1987
. . . .	. . . .	. . . .
Notes payable to Scientia Corporation (affiliated party), payable in monthly installments of $15,377 through June 1989, including interest at 9.5% per annum; unsecured	129,601	190,064
Note payable to Scientia Corporation (affiliated party), due June 30, 1989, interest at 9.5% per annum; unsecured	7,887	—
. . . .	. . . .	. . . .

(8) Transactions With Affiliates

W. O. Menefee, Jr. and Donald L. Shriver, Chairman and Chief Executive Officer, respectively, are each directors and principal stockholders of the Company. They are also each officers, directors and principal stockholders of Scientia Corporation. Biogime First Impression was an operating division of Scientia Corporation and North Country Media Group, Inc. was its wholly-owned subsidiary prior to acquisition by the Company.

On September 30, 1987, the Company purchased the inventory and operations of Biogime (see Notes 3 and 5).

On June 30, 1986 the Company purchased all of the assets and assumed certain liabilities of North Country Media Group, Inc. (see Notes 3 and 12).

On February 15, 1985, the Company acquired its currently occupied office building and land from a general partnership of W. O. Menefee, Jr., Donald L. Shriver (who is also trustee for the partnership) and John Green, a principal stockholder of Scientia.

FIRST TENNESSEE NATIONAL CORPORATION, DECEMBER 31, 1988

First Tennessee National Corporation
Notes to Consolidated Financial Statements

Note 9. Lease Commitments

On December 31, 1985, the principal subsidiary of the Corporation, First Tennessee Bank National Association, consummated the sale of its main office building at a sales price of $36,650,000 to a corporation controlled by a director of the Corporation. Approximately 64 percent of the building's rentable space was leased back over primary terms ranging from two to nine years, with one renewal option for ten years and two renewal options for five years each.

The sale resulted in a gain of $27,506,000 of which $12,395,000 was recognized in 1985. The remaining gain, representing the present value of net minimum lease payments, has been deferred.

HARNISCHFEGER INDUSTRIES, INC., OCTOBER 31, 1988

Harnischfeger Industries, Inc. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in thousands unless indicated.)

Note 4. Divestiture of Construction Equipment Business

The Company decided in April, 1986 to discontinue the business of the Construction Equipment Division of Harnischfeger Corporation, a wholly-owned subsidiary of the Company. Provisions aggregating $59,315 (net of applicable income tax benefits of $22,085), or $(4.45) per common share, were recorded in 1986 for the estimated loss on the planned divestiture, including estimated operating losses during the phase-out period.

In May, 1988 Century II, Inc., a company formed by a group of former Harnischfeger Corporation executives, acquired substantially all of the assets and liabilities of the Construction Equipment Division.

Assets acquired by Century II included substantially all inventories, foreign facilities, contracts, orders, accounts receivable and construction crane technology in the United States, Germany and Singapore. Century II assumed the Company's rights and responsibilities under certain agreements with Kobe Steel, Ltd. (''Kobe'') for the manufacture of certain construction cranes and payment of trademark and marketing fees on sales of construction equipment by Kobe.

Proceeds from the transaction were $81,800 and consisted of $35,000 in cash, a 25 year subordinated promissory note for approximately $42,300, $4,400 of preferred stock and $100 of common stock (a 19.9% interest in Century II). After April 30, 1989 the subordinated promissory note bears interest at increasing rates (9-20%) with mandatory repayment beginning in 1996.

JOHNSON WORLDWIDE ASSOCIATES, INC., SEPTEMBER 30, 1988

Johnson Worldwide Associates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

3. Acquisitions

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In January 1987, the Company purchased the assets of Downs' Collectors Showcase (Downs') in exchange for a total of 675,556 shares of Class A and Class B common stock valued at $3,800,000. Since the Company and Downs' were controlled by the same majority shareholders, the consolidated financial statements reflect the accounts and operations of Downs' on a continuing historical basis from the date of purchase.

RIGGS NATIONAL CORPORATION, DECEMBER 31, 1988

Riggs National Corporation
Notes to Consolidated Financial Statements
(dollar amounts in thousands, except per-share amounts and as indicated)

Note 1. Summary of Significant Accounting Policies

. . . Riggs National Corporation (the "Corporation"), including its subsidiaries, The Riggs National Bank of Washington, D.C. ("Riggs-Washington"). . . .

●●●●

Note 14. Transactions With Related Parties

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. . . Mr. Allbritton, the Chairman of the Corporation, ...

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During 1988, Riggs-Washington sold participations in real estate loans to University State Bank ("University"), a Texas bank that is indirectly wholly owned by Mr. Allbritton. The participations were sold for consideration equal to the outstanding principal amount and carried floating interest rates tied to market rates. The aggregate principal amount of all loan participations sold to University during 1988 was $50.6 million.

ROCKY MOUNTAIN MEDICAL CORPORATION, SEPTEMBER 30, 1988

Rocky Mountain Medical Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 1988, 1987, and 1986

(6) Related-Party Transactions

On December 31, 1986, the Company entered into a contingent agreement with Phoenix Hydrocarbon, a California corporation which is controlled by a shareholder and advisory board member of the Company, for the purchase of certain technology rights. The Company escrowed 1,100,000 shares of its common stock until the Food and Drug Administration approved the technol-

ogy and the Company determined that the technology is practical. The board authorized the release from escrow of the stock on September 13, 1988, since the FDA indicated verbally that there would not be significant problems with approval, and the Company received full rights to the technology. The technology was valued based on the estimated net realizable value of the asset.

Related Parties

In December, 1986, the Company purchased a manufacturing facility from Morristown Trust, of which the Company's Chairman of the Board of Directors was the trustee, for a cash purchase price of $2,950,000. Prior thereto, the Company had leased the facility from Morristown Trust for aggregate rental of $275,000 in the first eleven months of 1986. The facility contains space of approximately 227,000 square feet.

APPENDIX A

USING NAARS TO EXPAND THE INFORMATION IN THIS PUBLICATION

The National Automated Accounting Research System (NAARS) is a full text, on-line data base which includes three types of files. (1) Corporate annual reports, (2) Annual reports of governmental units, and (3) Accounting literature.

The corporate annual report files contain the financial statements, audit report, management responsibility letter, and notes to the financial statements. If the annual report received at the AICPA was on a Form 10-K, we also include the supplementary schedules.

There are always five single-year files of annual reports on-line, which you may search individually or in a combined group. Each single year file contains over 4,000 reports. The combined group contains over 21,000 annual reports.

SEARCH FRAMES

Search the reports by using a key word or phrase in the search frame transmitted. However, a particular accounting concept may be difficult to find by using a key word or phrase. For example, the subject "Accounting Changes" is sometimes difficult to identify in an annual report. A particular report may refer to an accounting change simply by saying, "During the year we changed the method of accounting for. . . ," which is a simple example to find. The search frame to transmit may be constructed as follows:

CHANG! W/5 METHOD OR ACCOUNTING

In this case, the researcher instructs the computer to search the annual reports for examples of any form of the word CHANGE (the exclamation point is a wild card) to appear within five words of either METHOD or ACCOUNTING.

However, a report that discloses an accounting change in a manner that does not use the word change can be a difficult one to find. For example, the report might say, "Since 1986, we

account for . . . ," or "Before 1985, we accounted for . . ." Both methods of disclosure imply there has been a change in the method of accounting but neither employ any form of the word change.

Members of the staff at the AICPA index the notes to make it possible to find examples such as this one. A CPA reads each of the notes going into the data base. These professionals identify accounting concepts contained within a note. The accounting concepts contained within the note are indexed by applying one or more acronyms at the beginning of each note. When the report is entered into the data base, the acronym becomes part of the note. The acronym is called a descriptor. (A list of all the descriptors used in NAARS is presented below.) The descriptor that identifies an accounting change is ACCTG.

The above example may be searched by using the following search frame:

ACCTG W/SEG SINCE OR PRIOR OR CHANG! OR ADOPT! W/5 METHOD OR ACCOUNT!

Here the researcher instructs the computer to find examples of note disclosure, where the note includes the descriptor ACCTG. Within the text of that note, the words PRIOR or SINCE or any form of the words CHANGE or ADOPT must appear within five words of METHOD or any form of the word ACCOUNT.

The researcher may also use descriptors together with a key word or phrase to find examples of specific kinds of changes. For example, the following search frame would provide examples of a change in the method of accounting for pension costs in conformity with SFAS No. 87.

ACCTG W/SEG PENS W/SEG (STATEMENT OR STANDARD OR SFAS OR FASB W/3 87)

While these search frames may appear intimidating at first glance, formulating a search becomes easy with a little experience. To provide new users with a quick start, the AICPA is offering a self-study course on formulating searches and using this data base. The first course is entitled *Learning LEXIS/NEXIS/NAARS* and is available from the AICPA Order Department. Call 1-800-334-6961 (in New York, 1-800-248-0445).

(If you have questions about subscribing to the NAARS data base through AICPA TOTAL [Total On-line Tax and Accounting Library] call Hal G. Clark at (212) 575-6393. To subscribe to TOTAL, call the Order Department number listed above.)

SEARCH FRAMES USED FOR THIS SURVEY

The following search frame was used for this survey:

INSIDR

The frame was used to instruct the computer to retrieve annual reports of companies with notes to the financial statements that contain the descriptor INSIDR. This is the descriptor assigned to notes that disclose related-party transactions. The financial statements of companies selected from that group provided the examples in this survey.

The preceding search frame may be used to find additional examples in the NAARS corporate annual report files.

LIST OF DESCRIPTORS USED IN NAARS

Below is a listing of descriptors used within the NAARS data base and a brief explanation of the concept identified by each:

Descriptor	Concept
PRACT	Accounting policies or practices

Descriptor	Concept
ACCTG	Accounting changes; changes in estimate
ACQUIS	Business combinations and acquisitions
COMMT	Commitments and contingencies
COMPEN	Compensation
CONSPOL	Consolidation policies
CONTR	Long-term contracts or lessor disclosures
DEBTAC	Debt
DEFERC	Deferred charges or credits; or negative goodwill
DIF	Disagreement between registrant and auditor
DISCOP	Discontinued operations disclosed within a footnote and the discontinued operation is presented as a separate segment in the income statement
DISCOPNSG	Discontinued operations disclosed within a footnote and the discontinued operation is not presented as a separate segment in the income statement
EPS	Earnings per share
FORCST	Forecasting
FOREFF	Foreign exchange—economic effect
FORX	Foreign exchange
FYCHG	Fiscal year change
FYDIF	Year end difference between investor/investee
INSIDR	Related-party transactions
INTANG	Intangible assets—positive goodwill
INTCONT	Internal control
INTRIM	Quarterly information
INVOL	Involuntary conversion
LOB	Line of business or segment disclosure
MDA	Management discussion analysis
NSUMOP	Notes to the summary of operations
PENS	Pension or retirement plans
PRIPER	Prior period adjustments
PROP	Property, depreciation, or depletion
REC	Receivables
RECLAS	Reclassifications

Descriptor	Concept
REORG	Reorganization or recapitalization
REPL	Replacement costs or current value of inflation disclosure
RESDEV	Research and development
REVREC	Revenue recognition
RRA	Reserve recognition accounting
STOK	Stock, shares, retained earnings, or dividends
STOKOP	Stock options
SUBEV	Subsequent event
SUPINF	Supplementary information
TX	Taxes
XTRA	Extraordinary items

In addition to the above footnote descriptors, the following are used to index or identify accounting concepts within the audit reports:

ADVER	Adverse opinion
CHGAUD	Change of auditor
CHGOP	Change prior year opinion
CONST	Consistency exception
CONTG	Contingency qualification
DISCL	Disclaimed opinion
GAAP	Departure from generally accepted accounting principles
INFDIS	Informative disclosure
OTHEX	Other reports, i.e., appraiser
RELYAUD	Reliance on other auditor
SCOP	Scope limitation
SUMOP	Summary of Operations covered by audit report
UNQUAL	Unqualified opinion

APPENDIX B

AUTHORITATIVE LITERATURE

The NAARS library contains a full-text file of authoritative and semi-authoritative accounting and auditing literature, which includes the following:

> FASB Statements, Concepts, Interpretations and Technical Bulletins; Emerging Issues Task Force of the FASB Issues Summaries and Minutes of Meetings; GASB Statements, Interpretations, Technical Bulletins and Concepts; APB Opinions, Statements and Interpretations; AICPA Statements on Auditing Standards; Auditing Interpretations; Accounting Standard Executive Committee Pronouncements; Issues Papers; Industry Audit and Accounting Guides; Statements on Standards for Accounting and Review Services, and Interpretations; Statement on Quality Control and Interpretation; Statement on Management Advisory Service; Statement on Standards for Accountants' Services on Prospective Financial Information; Statement on Standards for Attestation Engagements; Accounting Research Bulletins; Terminology Bulletins; International Accounting Standard Committee Pronouncements; AICPA Ethics—Concepts, Rules of Conduct, Interpretations, and Ethics Rulings—Technical Information Service Inquiries and Replies; International Federation of Accountants Committee Pronouncements (Auditing); Cost Accounting Standards Board Pronouncements; S.E.C. Staff Accounting Bulletins, Accounting Series Releases, Financial Reporting Releases, and Accounting and Auditing Enforcement Releases; Office of Management and Budget Circulars and Standards for Audit of Governmental Organizations & Functions; Presidents Council on Integrity and Efficiency: State Network Block Grants.

Just as search frames can be used to obtain illustrations of specific kinds of accounting from the NAARS annual report file, as discussed in Appendix A, so can they be used to obtain currently effective authoritative guidance on specific accounting or auditing problems from the NAARS literature file.

The following search frame was used to obtain currently effective authoritative guidance on the disclosure of related-party transactions, the subject of this survey:

RELATED PART! OR (STATEMENT OR STANDARD OR SFAS OR FAS W/4 57)

The following items were obtained:

SFAS No. 57

The principal authoritative pronouncement on disclosure of related-party transactions. Summarized in chapter 1 of this survey.

SFAS No. 96, *Accounting for Income Taxes*, paragraph 205

Amends SFAS No. 57 to specify the kind of information to be disclosed for a related-party transaction in the form of a consolidated income tax return.

AICPA Technical Practice Aids (TPA), *Technical Information Service Inquiries and Replies (TIS) 7400.04*

Provides an example of a "compensation arrangement" as that term is used in SFAS No. 57.

TPA, TIS 7400.05

Discusses the application of SFAS No. 57 with respect to loans to officers and directors made by banks.

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 (1990)**
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

**FRS Nos. 1–22, 29, and 30 are no longer in print.*

TECHNICAL HOTLINE

The AICPA Technical Information Service answers inquiries about specific audit or accounting problems.

Call Toll Free

(800) 223–4158 (Except New York)
(800) 522–5430 (New York Only)

This service is free to AICPA members.