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Hal G. Clark

Leonard Lorensen

June 1990

Illustrations of Departures From the New Standard Auditor's Report on Financial Statements of Business Enterprises

AICPA

Financial Report Survey
June 1990

Illustrations of Departures From the New Standard Auditor's Report on Financial Statements of Business Enterprises

A Survey of the Application of SAS No. 58

Hal G. Clark, CPA
Leonard Lorensen, CPA

AICPA
American Institute of Certified Public Accountants

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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 Information Services

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I

SCOPE AND PURPOSE OF THE SURVEY

This survey is primarily intended to help independent auditors prepare reports on the financial statements of business enterprises that depart from the new standard auditor's report in AICPA Statement on Auditing Standards No. 58, "Reports on Audited Financial Statements." The new standard report must be used for reports issued by independent auditors on or after January 1, 1989. Earlier application of the provisions of SAS No. 58 is permitted. In the remainder of this survey, the term "standard report" refers to the new standard report.

SITUATIONS JUSTIFYING DEPARTURES

SAS No. 58 describes various kinds of situations that justify departures from the standard report, including the following:

- The auditor's opinion is based in part on the report of another auditor.
- To prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles.
- The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible to reasonable estimation at the date of the auditor's report.
- There is substantial doubt about the entity's ability to continue as a going concern.
- Between periods, there has been a material change in accounting principles or in the method of their application.

SAS No. 58 provides guidance to auditors in determining a need for a departure from the standard report in response to these and other situations and, if such a departure is to be made, the selection of appropriate modifying language. Additional sources of guidance are described in appendix B of this survey.

SOURCE OF ILLUSTRATIONS

Considerable judgment is required to determine the need for a departure from the standard report and, if such a departure is to be made, to select the appropriate modifying language in accordance with SAS No. 58. An auditor who has a problem applying SAS No. 58 can benefit from learning how other auditors are applying the SAS in practice. Accordingly, this publication presents 162 auditors' reports on recently published financial statements. Some of the examples presented consist of (1) a report based on the standard report combined with (2) a report on information outside the basic financial statements. This survey also includes an example of an unqualified opinion even though there was a GAAP departure (see chapter 11).

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The reports presented were selected from the 1987/88 and 1988/89 annual report files. The search frames that were used are presented in appendix A.

II

CHANGE IN ACCOUNTING PRINCIPLE

An enterprise may change an accounting principle between reporting periods. SAS No. 58 requires the auditor's report covering those periods to disclose the change in an explanatory paragraph if the change has a material effect on the comparability of the statements. Disclosure of the change must be made even if the financial statements for the years prior to the change have been restated to reflect the change.

Thirty-six examples of auditors' reports that contain such an explanatory paragraph are presented below. The examples are classified according to whether the explanatory paragraph refers to one, two, or three or more changes in accounting principle. Some of the examples contain additional departures from the standard report illustrated in other chapters.

ONE CHANGE

ASHLAND OIL, INC., SEPTEMBER 30, 1988

Report of Independent Auditors

To the Stockholders and Board of Directors
Ashland Oil, Inc.
Ashland, Kentucky:

We have audited the accompanying consolidated balance sheets of Ashland Oil, Inc. and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of Ashland's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above (appearing on pages 45 to 59 of this Annual Report) present fairly, in all material respects, the consolidated financial position of Ashland Oil, Inc. and subsidiaries at September 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, in fiscal 1988 Ashland changed its method of accounting for income taxes.

ERNST & WHINNEY
Louisville, Kentucky
November 2, 1988

CELLCOM CORP., SEPTEMBER 30, 1988

Independent Auditors' Report

Cellcom Corp.:

We have audited the accompanying consolidated balance sheets of Cellcom Corp. and its subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended September 30, 1988, 1987, and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for the years ended September 30, 1988, 1987, and 1986 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 1988 the Company changed its method of accounting for certain costs associated with acquired subscriber accounts.

DELOITTE HASKINS & SELLS
Las Vegas, Nevada
January 12, 1989

CONVERGENT SOLUTIONS, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

Board of Directors
Convergent Solutions, Inc.
Laurence Harbor, New Jersey:

We have audited the accompanying consolidated balance sheets of Convergent Solutions, Inc. and Subsidiary as of September 30, 1988 and 1987, and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Convergent Solutions, Inc. and Subsidiary as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for research and development costs in 1987.

Laventhol & Horwath
New York, NY
November 14, 1988
November 29, 1988, as to common stock and warrants in Note 5

COUNTRYMARK, INCORPORATED, AUGUST 31, 1988

Independent Auditors' Report

The Board of Directors
Countrymark, Incorporated:

We have audited the accompanying consolidated balance sheets of Countrymark, Incorporated and subsidiaries as of August 31, 1988 and 1987, and the related consolidated statements of operations, shareholders' patron's equities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Countrymark, Incorporated and subsidiaries at August 31, 1988 and 1987, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 2a to the consolidated financial statements, Landmark, Inc., a wholly-owned subsidiary of Countrymark, Incorporated, is currently a defendant in litigation. The ultimate outcome of this litigation is not presently determinable, and no provision has been made in the consolidated financial statements for any liability that may result from such litigation.

As discussed in note 3 to the consolidated financial statements, in 1988 the Company changed its methods of computing grain quality discounts and accounting for gains and losses on contracts relating to the following year's grain harvest.

Peat Marwick Main & Co.
Columbus, Ohio
November 1, 1988

DIGILOG INC., SEPTEMBER 30, 1988

Independent Auditor's Report

Board of Directors and Stockholders
Digilog Inc.:

We have audited the accompanying consolidated balance sheets of Digilog Inc. and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digilog Inc. and subsidiaries as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for software development costs in 1987.

TOUCHE ROSS & CO.
Philadelphia, Pennsylvania
November 11, 1988 (November 29, 1988, as to Note 15)

FORTUNE FINANCIAL GROUP, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

The Board of Directors
Fortune Financial Group, Inc.:

We have audited the accompanying consolidated balance sheets of Fortune Financial Group, Inc. and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1988. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fortune Financial Group, Inc. and subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1(i) to the consolidated financial statements, the Company changed its method of accounting for loan fees in 1988 to comply with the provisions of Statement of Financial Accounting Standards No. 91, "Accounting For Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

/s/ PEAT MARWICK MAIN & CO.
Tampa, Florida
October 26, 1988, except for Note 17, which is as of December 22, 1988.

HUMANA INC., AUGUST 31, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders
Humana Inc.:

We have audited the accompanying consolidated balance sheet of Humana Inc. as of August 31, 1988 and 1987, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Humana Inc. as of August 31, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended August 31, 1988, in conformity with generally accepted accounting principles.

During the year ended August 31, 1988, the Company was required to adopt Financial Accounting Standards Board Statement No. 88, resulting in a change in the method of accounting for actuarial gains related to a defined benefit retirement plan which had been terminated as discussed in Note 9 to the consolidated financial statements.

COOPERS & LYBRAND
Louisville, Kentucky
October 13, 1988

MEDIQ INCORPORATED, SEPTEMBER 30, 1988

Independent Auditor's Report

Board of Directors and Stockholders
MEDIQ Incorporated
Pennsauken, New Jersey:

We have audited the accompanying consolidated balance sheets of MEDIQ Incorporated and subsidiaries as of September 30, 1988 and 1987, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MEDIQ Incorporated and subsidiaries as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-owned Subsidiaries," in 1988 and has consolidated its leasing services subsidiary with the Company. As a result, the presentation of the balance sheet has changed from a classified to a non-classified basis, and prior years' financial information has been restated on a comparable basis.

Philadelphia, Pennsylvania
December 8, 1988
Touche Ross & Co.

NUCLEAR METALS, INC., SEPTEMBER 30, 1988

Report of Independent Public Accountants

To the Board of Directors and Stockholders of Nuclear Metals, Inc.:

We have audited the consolidated balance sheets of Nuclear Metals, Inc. (a Massachusetts corporation) and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuclear Metals, Inc. and subsidiaries as of September 30, 1988 and 1987, and the results of its operations and its cash flows for the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As more fully explained in Note 8, the Company adopted the accounting requirements of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," as of October 1, 1987.

Arthur Andersen & Co.
Boston, Massachusetts
November 15, 1988

OEA, INC., JULY 31, 1988

Independent Auditors' Report

The Board of Directors
OEA, Inc.:

We have audited the consolidated balance sheets of OEA, Inc. and subsidiaries as of July 31, 1988 and 1987, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OEA, Inc. and subsidiaries at July 31, 1988 and 1987, and the result of their operations and their cash flows for each of the years in the three-year period ended July 31, 1988, in conformity with generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Company changed its method of accounting for manufacturing overhead in inventory in 1988.

PEAT MARWICK MAIN & CO.
Denver, Colorado
October 24, 1988

OTTER TAIL POWER COMPANY, DECEMBER 31, 1988

Independent Auditors' Report

To the Shareholders of Otter Tail Power Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Otter Tail Power Company as of December 31, 1988 and 1987, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in 1987 the Company changed its method of accounting for construction overhead costs.

DELOITTE HASKINS & SELLS
January 30, 1989
Minneapolis, Minnesota

PANCHO'S MEXICAN BUFFET, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

Pancho's Mexican Buffet, Inc.:

We have audited the consolidated balance sheets of Pancho's Mexican Buffet, Inc. and its subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of earnings and retained earnings for each of the three years in the period ended September 30, 1988, of cash flows for the years ended September 30, 1988 and 1987, and of changes in financial position for the year ended September 30, 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the companies at September 30, 1988 and 1987, and the results of their operations for each of the three years in the period ended September 30, 1988, their cash flows for the years ended September 30, 1988 and 1987, and the changes in their financial position for the year ended September 30, 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has presented a statement of changes in financial position for 1986 instead of a statement of cash flows.

DELOITTE HASKINS & SELLS
Fort Worth, Texas
November 1, 1988

TCI INTERNATIONAL, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

To the Stockholders and Board of Directors of TCI International, Inc.:

We have audited the consolidated balance sheets of TCI International, Inc. and its subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of TCI International, Inc. and its subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, as of October 1, 1985, the Company changed its method of computing the percentage of completion on long-term, fixed-price contracts.

DELOITTE HASKINS & SELLS
San Jose, California
November 16, 1988

INTERNATIONAL CONTROLS CORP., DECEMBER 31, 1988

Report of Independent Public Accountants

International Controls Corp.:

We have audited the accompanying consolidated balance sheet of International Controls Corp. and its subsidiaries as of December 31, 1987, and the related consolidated statements of operations, shareholders' equity, and cash flows for the seven months ended December 31, 1987, for the five months ended May 31, 1987, and the year ended December 31, 1986. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of International Controls Corp. and its subsidiaries at December 31, 1987, and the results of their operations and their cash flows for the seven months ended December 31, 1987, for the five months ended May 31, 1987, and for the year ended December 31, 1986, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company's common stock was acquired in June 1987 in a transaction that was accounted for by the purchase/push-down method of accounting. Accordingly, the financial statements for the period subsequent to the acquisition reflect the effects of the allocation of the acquisition cost to the Company's net assets. As a consequence, the financial statements prepared on the basis of the acquisition cost for the period subsequent to the transaction are not directly comparable to the financial statements prepared on the historical cost basis for the periods prior to the transaction.

As discussed in Note 1a to the consolidated financial statements, in 1988 the Company changed its method of accounting for investments in certain subsidiaries to conform with Statement of Financial Accounting Standards No. 94.

Our audits also comprehended the supplemental schedules of International Controls Corp. and its subsidiaries for the seven months ended December 31, 1987, for the five months ended May 31, 1987, and for the year ended December 31, 1986, listed in the accompanying index to schedules. In our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS
Fort Lauderdale, Florida
March 24, 1988 (March 23, 1989, as to the restatement to adopt Statement of Financial Accounting Standards No. 94 discussed in Note 1a to the consolidated financial statements)

NATIONAL CITY CORPORATION, DECEMBER 31, 1988 B

Report of Ernst & Whinney, Independent Auditors

The Stockholders
National City Corporation
Cleveland, Ohio:

We have audited the accompanying consolidated balance sheets of National City Corporation and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and stockholders' equity for each of the three years in the period ended December 31, 1988, statement of cash flows for the year ended December 31, 1988, and statements of changes in financial position for the years ended December 31, 1987 and 1986. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger with First Kentucky National Corporation, which has been accounted for as a pooling of interests as described in Note 2 to the financial statements. We did not audit the 1987 and 1986 consolidated financial statements of First Kentucky National Corporation, which statements reflect total assets constituting 26% in 1987 and total net income constituting 25% in 1987 and 27% in 1986 of the related consolidated totals. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for First Kentucky National Corporation, is based solely on the report of other auditors.

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

In our opinion, based on our audits and, for 1987 and 1986, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National City Corporation and subsidiaries at December 31, 1988 and 1987, and the consolidated results of their operations for each of the three years in the period ended December 31, 1988, their cash flows for the year ended December 31, 1988, and the changes in their financial position for the years ended December 31, 1987 and 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1988 National City Corporation adopted Financial Accounting Standards Board Statement No. 95, "Statement of Cash Flows."

Cleveland, Ohio
January 24, 1989
ERNST & WHINNEY

TWO CHANGES

CARTER HAWLEY HALE STORES, INC., JULY 30, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Carter Hawley Hale Stores, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, cash flows, and common stock and other shareholders' equity present fairly, in all material respects, the financial position of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries at July 30, 1988, and August 1, 1987, and the results of their operations and their cash flows for the fiscal year ended July 30, 1987, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in the Changes in Accounting Policies section of the Summary of Significant Accounting Policies, the Company changed its method of accounting for certain indirect costs incurred in the acquisition of merchandise inventories in fiscal 1988 and its method of accounting for costs incurred in the development of computer software for internal use in fiscal 1986. We concur with the changes in accounting.

/s/ PRICE WATERHOUSE
400 South Hope Street
Los Angeles, California
October 5, 1988

CUBIC CORPORATION, SEPTEMBER 30, 1988

Report of Independent Auditors

Board of Directors
Cubic Corporation
San Diego, California:

We have audited the accompanying statement of consolidated financial position of Cubic Corporation and Subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cubic Corporation and Subsidiaries at September 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, in 1988 the Company changed its method of accounting for income taxes (see Note A) and for pension costs (see Note I).

/s/ ERNST & WHINNEY
San Diego, California
December 2, 1988

FAIRCHILD INDUSTRIES, INC., DECEMBER 31, 1988

Independent Auditor's Report

Board of Directors and Stockholders
Fairchild Industries, Inc.
Chantilly, Virginia:

We have audited the accompanying consolidated balance sheets of Fairchild Industries, Inc. and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fairchild Industries, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 5, respectively, to the consolidated financial statements, the Company changed its method of accounting for inventory costs in 1987, and its method for accounting for settlements of defined benefit pension plans in 1986.

TOUCHE ROSS & CO.
Washington, D.C.
February 14, 1989

GALAXY CARPET MILLS, INC., OCTOBER 1, 1988

Independent Auditors' Report

Galaxy Carpet Mills, Inc.:

We have audited the accompanying balance sheets of Galaxy Carpet Mills, Inc. as of October 1, 1988, October 3, 1987, and October 4, 1986, and the related statements of income and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galaxy Carpet Mills, Inc. as of October 1, 1988, October 3, 1987, and October 4, 1986, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 3 and 4, respectively, the Company changed to a new method of accounting for inventories and changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 96.

DELOITTE HASKINS & SELLS
Chattanooga, Tennessee
November 16, 1988

GENERAL MOTORS CORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

General Motors Corporation, its Directors and Stockholders:

We have audited the Consolidated Balance Sheet of General Motors Corporation and subsidiaries as of December 31, 1988 and 1987, and the related Statements of Consolidated Income and Consolidated Cash Flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of General Motors Corporation and subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Financial Statements, effective January 1, 1988, the Corporation changed its method of accounting for certain manufacturing overhead costs. In the fourth quarter of 1988, the Corporation changed its consolidation policy as discussed in Note 1 to the Financial Statements. The financial statements presented herein have been restated for the change in consolidation policy as required by the Financial Accounting Standards Board.

/s/ DELOITTE HASKINS & SELLS

ILLINOIS POWER COMPANY, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors of Illinois Power Company:

In our opinion, the financial statements of Illinois Power Company appearing on pages 23 through 38 of this report present fairly, in all material respects, the financial position of Illinois

Power Company at December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in Note 3, there are significant uncertainties with respect to various matters related to the Clinton Power Station, including the determination of the extent, method, and timing of recovery of its related costs, litigation, and obtaining rates which provide adequate cash flows to allow the Company to maintain financial integrity. Management is unable to determine the ultimate outcome of these uncertainties. Accordingly, no provision for any liability or loss that may result upon resolution of these matters has been made in the accompanying financial statements.

As discussed in Note 2, the Company changed its method of accounting for unbilled revenues and adopted the new accounting standards relating to post-construction cost deferrals and disallowances of plant costs in 1988.

/s/ PRICE WATERHOUSE
St. Louis, Missouri
February 13, 1989

PAULEY PETROLEUM INC., SEPTEMBER 30, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Pauley Petroleum Inc.
Roswell, New Mexico:

We have audited the 1988 consolidated financial statements and related schedules of Pauley Petroleum Inc. and subsidiaries referred to in Item 14(a)(1) and (2) of the annual report on Form 10-K of Pauley Petroleum Inc. for the year ended September 30, 1988. These financial statements and related schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and related schedules based on our audit.

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

In our opinion, the 1988 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pauley Petroleum Inc. and subsidiaries at September 30, 1988, and the consolidated results of their operations and their cash flows for the year ended September 30, 1988, in conformity with generally accepted accounting principles. Further, it is our opinion that the schedules referred to above present fairly, in all material respects, the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

As discussed in Note 2 to the financial statements, the Company and subsidiaries changed their method of reporting changes in their financial position for the year ended September 30, 1988.

As discussed in Note 17 to the financial statements, the Company and subsidiaries changed their method of accounting for income taxes for the year ended September 30, 1988.

ERNST & WHINNEY
Roswell, New Mexico
December 5, 1988, except as to Notes 8 and 9 which are dated December 30, 1988

PENNZOIL COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To Pennzoil Company:

We have audited the accompanying consolidated balance sheet of Pennzoil Company (a Delaware corporation) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennzoil Company and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, the Company has given retroactive effect to the change in the method of accounting for its oil and gas operations. Also, as discussed in Note 4 to the Consolidated Financial Statements, as of January 1, 1986, the Company changed its method of accounting for pension costs.

ARTHUR ANDERSEN & CO.
Houston, Texas
February 21, 1989

THE TIMKEN COMPANY, DECEMBER 31, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors
The Timken Company
Canton, Ohio:

We have audited the accompanying consolidated balance sheets of The Timken Company and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, capital and earnings invested in the business, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Timken Company and subsidiaries at December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As described in Note C to the financial statements, the Company changed its method of computing depreciation and its method of accounting for pensions in 1986.

/s/ ERNST & WHINNEY
Canton, Ohio
February 2, 1989

THREE OR MORE CHANGES

COLONIAL GAS COMPANY, DECEMBER 31, 1988

Report of Independent Certified Public Accountants

To the Shareholders of Colonial Gas Company:

We have audited the accompanying consolidated balance sheets of Colonial Gas Company and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of earnings, common equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colonial Gas Company and subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As described in note B to the consolidated financial statements, the Company changed its method of accounting for revenues for the year ended December 31, 1988. For the year ended December 31, 1987, the Company changed its method of accounting for income taxes as described in note C and its method of accounting for pension costs as described in note I to the consolidated financial statements.

/s/ GRANT THORNTON
Boston, Massachusetts
February 15, 1989

ETHYL CORPORATION, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Ethyl Corporation:

We have audited the accompanying consolidated balance sheets of Ethyl Corporation and Subsidiaries (the "Company") as of December 31, 1988 and 1987, and the related consolidated statements of income, retained earnings, additional paid-in capital, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ethyl Corporation and Subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

In response to accounting pronouncements issued by the Financial Accounting Standards Board, the Company made several changes in accounting methods for its insurance operations and pension costs, which are described in Notes 1, 13, and 15. In 1988, the Company changed its method of accounting for its investment in the insurance segment and changed the method of accounting and reporting by its insurance segment for certain long-duration contracts and for realized gains and losses from the sale of investments. The Company changed its method of accounting for pension costs for foreign defined benefit plans in 1988 and for U.S. defined benefit plans in 1986.

COOPERS & LYBRAND
Suite 1000, Seventh & Franklin Building, Richmond, Virginia 23219
January 27, 1989

GENERAL ELECTRIC COMPANY, DECEMBER 31, 1988

Independent Auditors' Report

To Share Owners and Board of Directors of General Electric Company:

We have audited the accompanying statement of financial position of General Electric Company and consolidated affiliates as of December 31, 1988 and 1987, and the related statements of earnings and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the aforementioned financial statements appearing on pages 24–29 and 44–70 present fairly, in all material respects, the financial position of General Electric Company and consolidated affiliates at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, in 1988 the Company changed its method of inclusion of previously unconsolidated affiliates; and in 1987 the Company changed its methods of accounting for income taxes and overhead recorded in inventory. We concur with these accounting changes.

PEAT MARWICK MAIN & CO.
Stamford, Connecticut
February 10, 1989

HONEYWELL, INC., DECEMBER 31, 1988

Independent Auditors' Opinion

To the Stockholders of Honeywell Inc.:

We have audited the statement of financial position of Honeywell Inc. and consolidated subsidiaries as of December 31, 1988 and 1987, and the related statements of income and of cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Honeywell Inc. and consolidated subsidiaries at December 31, 1988 and 1987, and the results of its operations and its cash flows for the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in notes 12 and 7 to the financial statements, in 1988 the Company changed its consolidation policy and its method of accounting for income taxes to conform with Statements of Financial Accounting Standards Nos. 94 and 96, respectively. As discussed in Note 19, in 1987 the Company changed its method of accounting for pension costs.

DELOITTE HASKINS & SELLS
Minneapolis, Minnesota
February 14, 1989

ITT CORPORATION, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders of ITT Corporation:

We have audited the financial statements of ITT Corporation (a Delaware corporation) and subsidiaries as of December 31, 1988 and 1987, and for each of the three years in the period ended December 31, 1988, as set forth on pages 24 through 34 of this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITT Corporation and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in the accompanying notes to financial statements, in 1988 the Company adopted several new accounting standards promulgated by the Financial Accounting Standards Board. In 1987, the Company changed its method of revenue recognition for certain defense contracts.

ARTHUR ANDERSEN & CO.
New York, N.Y.
February 24, 1989

KAISER ALUMINUM & CHEMICAL CORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

The Stockholders and the Board of Directors of Kaiser Aluminum & Chemical Corporation:

We have audited the accompanying consolidated balance sheet of Kaiser Aluminum & Chemical Corporation ("Successor," a subsidiary of MAXXAM Inc.) and subsidiary companies as of December 31, 1988, and the related statements of consolidated income and consolidated cash flows for the two-month period then ended. We have also audited the accompanying consolidated balance sheet of Kaiser Aluminum & Chemical Corporation ("Predecessor," a subsidiary of KaiserTech Limited) and subsidiary companies as of December 31, 1987, and the related statements of consolidated income for the ten-month period ended October 31, 1988, and the years ended December 31, 1987 and 1986, consolidated cash flows for the ten-month period ended October 31, 1988, and the year ended December 31, 1987, and changes in consolidated financial position for the year ended December 31, 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1986 financial statements of certain investees, Predecessor's investment in which is accounted for by the equity method. Predecessor's equity of $83.7 million in the net assets of those investees at December 31, 1986, and of $.6 million in the 1986 net losses of those investees is included in Predecessor's 1986 consolidated financial statements. The 1986 financial statements of those investees were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for those investees for 1986, is based solely upon the reports of such other auditors.

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

In our opinion, based upon our audits and the reports of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Successor and subsidiary companies at December 31, 1988, and the results of their operations and their cash flows for the two-month period then ended, and the financial position of Predecessor and subsidiary companies at December 31, 1987, and the results of their operations for the ten-month period ended October 31, 1988, and the years ended December 31, 1987 and 1986, their cash flows for the ten-month period ended October 31, 1988, and the year ended December 31, 1987, and the changes in their financial position for the year ended December 31, 1986, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the consolidated financial statements, MAXXAM Inc. acquired KaiserTech Limited in a purchase transaction deemed to be effective as of October 31, 1988. Push-down accounting has been applied to the financial statements of Successor, and Successor has recorded the assets and liabilities of Predecessor at estimated fair values. Accordingly, the consolidated financial statements of Successor are not comparable to those of Predecessor.

As discussed in Note 3 to the consolidated financial statements, in 1988 Predecessor changed its consolidation policy for majority-owned subsidiaries to conform with Financial Accounting Standard (FAS) No. 94, and also changed to a statement of cash flows in place of a statement of changes in financial position to comply with FAS No. 95. The 1987 consolidated financial statements and the 1986 consolidated balance sheet have been revised from those previously issued to reflect these changes.

As discussed in Note 13, in 1986 Predecessor changed its method of accounting for defined benefit pension plans to conform with FAS Nos. 87 and 88.

OLD STONE CORPORATION, DECEMBER 31, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Stockholders
Old Stone Corporation
Providence, Rhode Island:

We have audited the accompanying consolidated balance sheets of Old Stone Corporation and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, changes in redeemable preferred stock, non-redeemable preferred stock, common stock, and other stockholders' equity for each of the three years in the period ended December 31, 1988, the related consolidated statement of cash flows for the year ended December 31, 1988, and the related consolidated statements of changes in financial position for the years ended December 31, 1987 and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Old Stone Corporation and subsidiaries at December 31, 1988 and 1987, and the consolidated results of their operations for each of the three years in the period ended December 31, 1988, their cash flows for the year ended December 31, 1988, and their changes in financial position for the years ended December 31, 1987 and 1986, in conformity with generally accepted accounting principles.

In 1988, the Company changed its method of accounting for loan and commitment fees and certain direct loan origination costs, and income taxes. In addition, the Company adopted the provisions of SFAS No. 95, "Statement of Cash Flows." These changes are discussed in Notes 24, 9, and 1, respectively, to the financial statements. As permitted by SFAS No. 96, "Accounting for Income Taxes," management has elected to retroactively apply the provisions of SFAS No. 96 to the 1987 consolidated financial statements. Accordingly, the consolidated financial statements for the year ended December 31, 1987, have been restated.

/s/ ERNST & WHINNEY
Providence, Rhode Island
January 17, 1989

SHELL OIL COMPANY, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Shell Oil Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 14a on page 26 present fairly, in all material respects, the financial position of Shell Oil Company and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2 to the consolidated financial statements, in 1988 the Company began consolidating all wholly-owned subsidiaries and changed its method of accounting for income taxes, the capitalization of interest, and internally developed computer software costs.

PRICE WATERHOUSE
Houston, Texas
February 9, 1989

VALLEY NATIONAL CORPORATION, DECEMBER 31, 1988

Independent Auditor's Report

The Board of Directors and Shareholders
Valley National Corporation
Phoenix, Arizona:

We have audited the accompanying consolidated balance sheets of Valley National Corporation and Subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and changes in shareholders' equity for each of the three years in the period ended December 31, 1988, the consolidated statement of cash flows for the year ended December 31, 1988, and the consolidated statements of changes in financial position for the years ended December 31, 1987 and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valley National Corporation and Subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations for each of the three years in the period ended December 31, 1988, their consolidated cash flows for the year ended December 31, 1988, and the consolidated changes in their financial position for the years ended December 31, 1987 and 1986, in conformity with generally accepted accounting principles.

The Company is presenting a consolidated statement of cash flows in 1988 in place of a consolidated statement of changes in financial position, and changed its method of accounting for income taxes in 1988, nonrefundable fees and costs in 1987, and pension costs in 1986, as discussed in Notes 1, 11, and 12 to the consolidated financial statements.

COOPERS & LYBRAND
Phoenix, Arizona
January 17, 1989

THE WASHINGTON WATER POWER COMPANY, DECEMBER 31, 1988

Independent Auditors' Report

The Washington Water Power Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of The Washington Water Power Company and its subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and retained earnings, cash flows, and the schedules of information by business segments for each of the three years in the period ended December 31, 1988. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the accompanying consolidated financial statements and schedules present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1986 the Company changed its method of accounting for unbilled revenues and abandonments and disallowances of plant costs, and recalculated the reserve established for the Skagit-Hanford Project.

Deloitte Haskins & Sells
January 31, 1989
Seattle, Washington

XEROX CORPORATION, DECEMBER 31, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of Xerox Corporation:

We have audited the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements appearing on pages 26, 27, 29, 33, 35, 36, and 38–53 present fairly, in all material respects, the financial position of Xerox Corporation and consolidated subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with generally accepted accounting principles.

As described in the notes to the consolidated financial statements, in 1988 the Company changed its basis of consolidation and, at its insurance subsidiary, its method of accounting for certain long-duration contracts, and reporting for realized gains and losses from the sale of investments. In 1986, the Company changed its method of accounting for pensions.

PEAT MARWICK MAIN & CO.
Stamford, Connecticut
January 30, 1989

CHANGE IN REPORTING ENTITY

BINGO KING COMPANY, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Bingo King Company, Inc.:

We have audited the accompanying consolidated financial statements of Bingo King Company, Inc. and its subsidiaries, listed in Item 14. Our audit also comprehended the supplemental schedules of Bingo King Company, Inc. and its subsidiaries, listed in Item 14. These financial statements and supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of Bazaar & Novelty, Inc. (doing business as Clover Press), a combined entity, for the year ended December 31, 1986, which statements reflect revenues constituting 97% of combined total revenues for that year. Such financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Bazaar & Novelty, Inc. for the year ended December 31, 1986, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. Also, in our opinion, based on our audits and the report of other auditors, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly, in all material respects, the information shown therein.

As discussed in Note 1 to the consolidated financial statements, Bingo King Company, Inc. was involved in a business combination with Bazaar U.S. effective July 1, 1988, that has been accounted for as a reverse acquisition. Bazaar U.S. is treated as the acquiror for accounting purposes; accordingly, the financial statements of the Company for periods prior to July 1, 1988, are those of Bazaar U.S. and differ from the consolidated financial statements of Bingo King Company, Inc. and its subsidiaries as previously reported for those periods.

DELOITTE HASKINS & SELLS
Denver, Colorado
April 17, 1989

III

PART OF THE AUDIT MADE BY OTHER AUDITOR

A principal auditor may decide to base an opinion in part on the report of another auditor who has audited the financial statements of a component of the consolidated enterprise. When this is the case, the principal auditor is required to follow SAS No. 1, Section 543, which SAS No. 58 incorporates by reference.

AU Section 543 requires that the report of the principal auditor indicate clearly, in the introductory, scope, and opinion paragraphs, the division of responsibility between the portion of the financial statements examined by the principal auditor and the portion examined by the other auditor. The report of the principal auditor is required to disclose the magnitude of the portion of the financial statements examined by the other auditor. That may be done by stating the dollar amounts or percentages of total assets, total revenue, or other applicable criteria pertaining to the audit of the other auditor.

Seventeen examples in which the auditor's report discloses that at least part of the audit was performed by another auditor are presented below.

NO DEPARTURE DISCLOSED BY OTHER AUDITOR—CONSOLIDATED SUBSIDIARY

THE FLAMEMASTER CORPORATION, SEPTEMBER 30, 1988

Board of Directors and Shareholders
The Flamemaster Corporation
Los Angeles, California:

We have audited the accompanying consolidated balance sheets of The Flamemaster Corporation and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1986 financial statements of Altius Corp., a consolidated subsidiary, which statements reflect total revenues constituting approximately 30% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Altius Corp., is based solely on the reports of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Flamemaster Corporation and subsidiaries at September 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

Ernst & Whinney
Century City
Los Angeles, California
November 17, 1988

QMS, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

QMS, Inc.:

We have audited the accompanying consolidated balance sheets of QMS, Inc. and its subsidiaries as of September 30, 1988, and October 2, 1987, and the related consolidated statements of income (loss) and changes in stockholders' equity for each of the three fiscal years in the period ended September 30, 1988, the consolidated statement of cash flows for the fiscal year ended September 30, 1988, and the consolidated statements of changes in financial position for the fiscal years ended October 2, 1987, and October 3, 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1987 and 1986 consolidated statements of IMAGEN Corporation (a consolidated subsidiary), which statements reflect assets constituting 12% and 17%, respectively, of consolidated total assets at October 2, 1987, and October 3, 1986, and net sales constituting 18% and 22%, respectively, of consolidated net sales for the fiscal years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for IMAGEN Corporation for 1987 and 1986, is based solely upon the report of such other auditors.

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

In our opinion, based upon our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of QMS, Inc. and its subsidiaries at September 30, 1988, and October 2, 1987, and the results of their operations for each of the three fiscal years in the period ended September 30, 1988, their cash flows for the fiscal year ended September 30, 1988, and their changes in financial position for the fiscal years ended October 2, 1987, and October 3, 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company has presented a consolidated statement of cash flows in place of a consolidated statement of changes in financial position.

DELOITTE HASKINS & SELLS
Mobile, Alabama
October 26, 1988

RED EAGLE RESOURCES CORPORATION, SEPTEMBER 30, 1988

Independent Auditors' Report

The Board of Directors
Red Eagle Resources Corporation:

We have audited the accompanying consolidated financial statements of Red Eagle Resources Corporation as of September 30, 1988 and 1987, and for each of the three years in the period ended September 30, 1988, listed in Item 14. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Red Eagle Exploration Co. (a consolidated subsidiary) for the year ended September 30, 1986, which statements reflect assets constituting 15% of the consolidated assets. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Red Eagle Exploration Co. for the year ended September 30, 1986, is based solely upon the report of such other auditors.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Red Eagle Resources Corporation at September 30, 1988 and 1987, and the results of its operations and its cash flows for the each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

Our audits also comprehended the supplemental schedules of Red Eagle Resources Corporation for each of the three years in the period ended September 30, 1988, listed in Item 14. In our opinion, based on our audits and (as to the amounts included for Red Eagle Exploration Co.) the report of other auditors, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS
Oklahoma City, Oklahoma
December 24, 1988

RSI CORPORATION, AUGUST 31, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
RSI Corporation and Subsidiaries
Greenville, South Carolina:

We have audited the accompanying consolidated balance sheets of RSI Corporation and subsidiaries as of August 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audits. We did not audit the financial statements of Porter Brothers, Inc. and DeBra Enterprises, Inc. (for 1988 and 1987), both wholly owned consolidated subsidiaries, which statements reflect total assets constituting 38% (1988) and 40% (1987), and total revenues (including discontinued operations) constituting 66% (1988), 70% (1987), and 58% (1986) of the related consolidated totals. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Porter Brothers, Inc. and DeBra Enterprises, Inc., is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RSI Corporation and subsidiaries at August 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 31, 1988, in conformity with generally accepted accounting principles.

/s/ ERNST & WHINNEY
Greenville, South Carolina
November 28, 1988

NO DEPARTURE DISCLOSED BY OTHER AUDITOR—EQUITY BASIS INVESTEE

AMERON, INC., NOVEMBER 30, 1988

Independent Auditor's Report

To the Stockholders and the Board of Directors, Ameron, Inc.:

We have audited the accompanying consolidated balance sheets of Ameron, Inc. (a Delaware corporation) and subsidiaries as of November 30, 1988 and 1987, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Gifford-Hill-American, Inc., the investment in which is recorded using the equity method of accounting (see Note 5). The investment in this company represents 2 and 5 percent of consolidated assets as of November 30, 1988 and 1987, respectively, and the equity in its earnings represents 5, 13, and 14 percent of consolidated net income in 1988, 1987, and 1986, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this company, is based solely upon the reports of the other auditors.

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

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

ARTHUR ANDERSEN & CO.
Los Angeles, California
January 16, 1989

COAST SAVINGS AND LOAN ASSOCIATION, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors
Coast Savings and Loan Association:

We have audited the accompanying consolidated statements of financial condition of Coast Savings and Loan Association and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1988. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of CoastFed Properties, a 50-percent-owned investee company. The Association's investment in CoastFed Properties at December 31, 1988 and 1987, was $144,100,000 and $164,500,000, respectively. Its equity in earnings of CoastFed Properties was $8,414,000, $30,547,000, and $23,702,000 for the years ended December 31, 1988, 1987, and 1986, respectively. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CoastFed Properties, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coast Savings and Loan Association and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Association changed its method of accounting for loan origination and commitment fees, and direct loan origination costs in 1988 to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

/s/ PEAT MARWICK MAIN & CO
Los Angeles, California
January 20, 1989

EATON VANCE CORP., OCTOBER 31, 1988

Independent Auditor's Report

Board of Directors and Shareholders
Eaton Vance Corp.:

We have audited the consolidated balance sheets of Eaton Vance Corp. as of October 31, 1988 and 1987, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended October 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Investors Bank & Trust Company (IB&T), an unconsolidated subsidiary. The Company's investment in IB&T aggregated $3,831,533 and $3,472,585 at October 31, 1988 and 1987, respectively, and its equity in the earnings of IB&T amounted to $409,749, $377,190, and $337,032 for the years ended October 31, 1988, 1987, and 1986, respectively. The financial statements of IB&T were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IB&T, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eaton Vance Corp. as of October 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1988, in conformity with generally accepted accounting principles.

TOUCHE ROSS & CO.
Certified Public Accountants
(Successors to the practice of Meahl, McNamara & Co., Certified Public Accountants, who audited the financial statements for each of the two years in the period ended October 31, 1987)
Boston, Massachusetts, December 14, 1988

TRANSAMERICA CORPORATION, DECEMBER 31, 1988

Report of Independent Auditors

Board of Directors and Shareholders
Transamerica Corporation:

We have audited the consolidated balance sheet of Transamerica Corporation and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of Transamerica Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Sedgwick Group plc, used as the basis for recording the equity in net income of that corporation, were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts of income included for Sedgwick Group plc, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Transamerica Corporation and subsidiaries at December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

ERNST & WHINNEY
San Francisco, California
February 27, 1989

UNITED TELECOMMUNICATIONS, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

The Board of Directors and Shareholders
United Telecommunications, Inc.:

We have audited the accompanying consolidated balance sheets of United Telecommunications, Inc. (United) at December 31, 1988 and 1987, and the related consolidated statements of income, common stock, and other shareholders' equity and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of United's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial information of US Sprint Communications Company (US Sprint), a 50-percent-owned general partnership in which United acquired an additional 30.1 percent interest effective January 3, 1989, is presented on a consolidated basis in 1988 and using the equity method in 1987 and 1986 (see Note 1). The 1987 financial statements of US Sprint were examined by other auditors whose report has been furnished to us, and our opinion on United's 1987 consolidated financial statements, insofar as it relates to the amounts included for US Sprint, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the 1987 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, in 1987, on the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Telecommunications, Inc. at December 31, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

ARTHUR YOUNG & COMPANY
Kansas City, Missouri
February 15, 1989

VOLT INFORMATION SCIENCES, INC., OCTOBER 28, 1988

Report of Independent Auditors

Board of Directors
Volt Information Sciences, Inc.
New York, New York:

We have audited the consolidated financial statements and related schedules of Volt Information Sciences, Inc. and subsidiaries listed in Item 14(a)(1) and (2) of the annual report on Form 10-K of Volt Information Sciences, Inc. for the year ended October 28, 1988. These financial statements and related schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and related schedules based on our audits. The combined financial statements of Australian Directory Services, Courtnay's Proprietary Limited and subsidiaries, and VNM Directory Support Services, used as the basis for recording the Company's share of changes in equity of these entities, were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Volt Information Sciences, Inc. and subsidiaries at October 28, 1988, and October 30, 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 28, 1988, in conformity with generally accepted accounting principles. Further, it is our opinion that the schedules referred to above present fairly, in all material respects, the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

As discussed in Note B to the financial statements, in 1988 the Company changed its method of accounting for income taxes.

/s/ ERNST & WHINNEY
New York, New York
January 10, 1989

NO DEPARTURE DISCLOSED BY OTHER AUDITOR—OTHER

BINGO KING COMPANY, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Bingo King Company, Inc.:

We have audited the accompanying consolidated financial statements of Bingo King Company, Inc. and its subsidiaries, listed in Item 14. Our audit also comprehended the supplemental schedules of Bingo King Company, Inc. and its subsidiaries, listed in Item 14. These financial statements and supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of Bazaar & Novelty, Inc. (doing business as Clover Press), a combined entity, for the year ended December 31, 1986, which statements reflect revenues constituting 97% of combined total revenues for that year. Such financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Bazaar & Novelty, Inc. for the year ended December 31, 1986, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. Also, in our opinion, based on our audits and the report of other auditors, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly, in all material respects, the information shown therein.

As discussed in Note 1 to the consolidated financial statements, Bingo King Company, Inc. was involved in a business combination with Bazaar U.S. effective July 1, 1988, that has been accounted for as a reverse acquisition. Bazaar U.S. is treated as the acquiror for accounting purposes; accordingly, the financial statements of the Company for periods prior to July 1, 1988, are those of Bazaar U.S. and differ from the consolidated financial statements of Bingo King Company, Inc. and its subsidiaries as previously reported for those periods.

DELOITTE HASKINS & SELLS
Denver, Colorado
April 17, 1989

EAGLE FINANCIAL CORP., SEPTEMBER 30, 1988

Report of Independent Auditors

Board of Directors
Eagle Financial Corp.
Bristol, Connecticut:

We have audited the accompanying consolidated balance sheets of Eagle Financial Corp. and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income and shareholders' equity for each of the three years in the period ended September 30, 1988, and the statement of cash flows for the year ended September 30, 1988, and the statement of changes in financial position for each of the two years in the period ended September 30, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Eagle Financial Corp. and its wholly owned subsidiary, First Federal Savings and Loan Association of Torrington, for the years ended September 30, 1987 and 1986, which statements reflect total assets constituting 53% as of September 30, 1987, and total interest income constituting 52% in 1987 and 53% in 1986 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Eagle Financial Corp. and its wholly owned subsidiary, First Federal Savings and Loan Association of Torrington, is based solely on the reports of the other auditors.

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

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

As discussed in Note A to the financial statements, in 1988 the Company adopted Statement of Financial Accounting Standards No. 95 for cash flow reporting.

As discussed in Note C to the financial statements, in 1988 the Company adopted Statement of Financial Accounting Standards No. 91 in accounting for loan originating fees and related costs.

/s/ ERNST & WHINNEY
Hartford, Connecticut
October 31, 1988

TELEDYNE, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Teledyne, Inc.:

We have audited the accompanying consolidated balance sheets of Teledyne, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of United Insurance Company of America and subsidiaries (Note 9). The total assets of United Insurance Company of America and subsidiaries represent 45 percent in 1988 and 46 percent in 1987 of consolidated assets, and its net income represents 24 percent in 1988, 23 percent in 1987, and 28 percent in 1986 of consolidated net income. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for United Insurance Company of America and subsidiaries, is based solely on the report of the other auditors. Additionally, we did not audit the financial statements of certain investee companies (Notes 1 and 3). The equity in net income of these investees represents 10 percent in 1988, 1987, and 1986 of consolidated net income. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for these investees, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teledyne, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 8 to the consolidated financial statements, the Company changed the method of accounting for its insurance and finance subsidiaries and the method of accounting for pension expense.

ARTHUR ANDERSEN & CO.
Los Angeles, California
January 8, 1989

TEMPLE-INLAND INC., DECEMBER 31, 1988

Report of Independent Auditors

To the Board of Directors and Shareholders of Temple-Inland Inc.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 31, 1988, and January 2, 1988, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Great American Reserve Insurance Company, a consolidated subsidiary, which statements reflect total assets constituting 35 percent in 1988 and 36 percent in 1987, and total revenues constituting 13 percent in 1988, 14 percent in 1987, and 17 percent in 1986 of the related consolidated totals, or the 1987 and 1986 financial statements of Georgia Kraft Company, used as a basis for recording the Company's equity in net income of that corporation. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Great American Reserve Insurance Company and Georgia Kraft Company, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at December 31, 1988, and January 2, 1988, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

ERNST & WHINNEY
Houston, Texas
February 17, 1989

USAIR GROUP, INC., DECEMBER 31, 1988

Independent Auditors' Report

The Stockholders and Board of Directors
USAir Group, Inc.:

We have audited the accompanying consolidated balance sheets of USAir Group, Inc. and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Piedmont Aviation, Inc., carried on the equity method of accounting from March 8, 1987, to November 5, 1987, and consolidated thereafter, representing, after elimination of intercompany balances, total assets constituting 44% and 48% of consolidated total assets at December 31, 1988 and 1987, respectively, and 45% of total consolidated revenues for 1988 and 26% of consolidated net income for 1987. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Piedmont Aviation, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USAir Group, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with generally accepted accounting principles.

PEAT MARWICK MAIN & CO.
Washington, D.C.
February 15, 1989

VOLT INFORMATION SCIENCES, INC. (COMBINED SUBSIDIARIES OF), OCTOBER 28, 1988

Report of Independent Auditors

Mr. James J. Groberg
Senior Vice President and Treasurer
Volt Information Sciences, Inc.
New York, New York:

We have audited the combined balance sheet 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 as of October 28, 1988, and the related combined statements of operations, equity, and cash flows and the schedules listed in the index on page 46 of the annual report on Form 10-K of Volt Information Sciences, Inc. (Company), all for the year then ended. These financial statements and related schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and related schedules based on our audit. We did not audit the financial statements of Australian Directory Services, Courtnay's Proprietary Limited and subsidiaries, and VNM Directory Support Services, which statements reflect total assets constituting 85% of combined total assets at October 28, 1988. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position 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 at October 28, 1988, and the combined results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Further, it is our opinion, based upon our audit and the reports of the other auditors, that the schedules referred to above present fairly, in all material respects, the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

/s/ ERNST & WHINNEY
New York, New York
January 10, 1989

REPORT OF OTHER AUDITOR QUALIFIED

BOATMEN'S BANCSHARES, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

The Board of Directors and Stockholders
Boatmen's Bancshares, Inc.:

We have audited the accompanying consolidated balance sheet of Boatmen's Bancshares, Inc. at December 31, 1988, and the related consolidated statements of income, changes in stockholders' equity, and cash flows (presented in accordance with Statement of Financial Accounting Standards No. 95 as discussed in Note 2 to the consolidated financial statements) for the year then ended. These financial statements are the responsibility of Boatmen's Bancshares, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boatmen's Bancshares, Inc. at December 31, 1988, and the consolidated results of operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Boatmen's Bancshares, Inc. changed its method of accounting for loan origination fees and costs and income taxes in 1988.

We previously audited and reported upon the consolidated balance sheet of Boatmen's Bancshares, Inc. at December 31, 1987, and the related consolidated statements of income, changes in stockholders' equity, and changes in financial position for each of the two years in the period ended December 31, 1987, prior to their restatement for the 1988 pooling of interests. Boatmen's Bancshares, Inc. represents 65% of restated total assets at December 31, 1987, and 84% and 72% of the restated net income for the years ended December 31, 1987 and 1986. Financial statements of Centerre Bancorporation included in the 1987 restated consolidated balance sheet and the 1987 and 1986 restated consolidated statements of income, changes in stockholders' equity, and changes in financial position were audited and reported on by other auditors whose report, dated January 15, 1988, was qualified for the change in accounting for trust fees in 1987. We have also audited, as to combination only, the accompanying consolidated balance sheet at December 31, 1987, and the related consolidated statements of income changes in stockholders' equity, and changes in financial position for each of the two years in the period ended December 31, 1987, after restatement for the 1988 pooling of interest; in our opinion, such consolidated financial statements have been properly combined on the basis described in Note 3 to the consolidated financial statements.

ARTHUR YOUNG & COMPANY
St. Louis, Missouri
January 30, 1989

[*Editor's Note: Under SAS No. 58, consistency is no longer cause for a qualified opinion.*]

IV

CHANGE OF PRINCIPAL AUDITOR

The financial statements of an earlier year may have been audited by a predecessor principal auditor. If the predecessor's report is not presented in the annual report, SAS No. 58 requires the successor principal auditor to make these disclosures in the introductory paragraph of his or her report—

1. The date of the report of the predecessor auditor.
2. The type of report issued by the predecessor.
3. If the predecessor's report departed from the standard report, the nature of and reasons for the departure.

If the financial statements for the period examined by the predecessor were restated by the successor, the successor is required to indicate that the predecessor reported on them without restatement.

Twenty examples of auditors' reports that disclosed that the financial statements of an earlier year were audited by a predecessor principal auditor are presented below. The examples are classified according to whether or not the report of the present principal auditor described the predecessor's report as containing a departure from the auditor's standard report. The examples disclosing such a departure are further classified according to whether the departure was described as an explanatory paragraph or a qualified or disclaimed opinion. Some of the examples contain additional departures from the standard report that are illustrated in other chapters.

UNQUALIFIED OPINION BY OTHER AUDITOR

GELMAN SCIENCES INC., JULY 31, 1988

Report of Coopers & Lybrand, Independent Auditors

Board of Directors and Stockholders
Gelman Sciences Inc.
Ann Arbor, Michigan:

We have audited the consolidated balance sheet of Gelman Sciences Inc. and subsidiaries as of July 31, 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Gelman Sciences Inc. and subsidiaries as of July 31, 1987, and for the years ended July 31, 1987 and 1986, were audited by other auditors whose report dated October 5, 1987, expressed an unqualified opinion on those statements.

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

In our opinion, the 1988 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gelman Sciences Inc. and subsidiaries as of July 31, 1988, and the consolidated results of its operations and its cash flow for the year then ended, in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND
Detroit, Michigan
October 7, 1988

INTERNATIONAL POWER MACHINES CORPORATION, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders of International Power Machines Corporation:

We have audited the accompanying consolidated balance sheet of International Power Machines Corporation (a Texas corporation) and subsidiaries as of December 31, 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying consolidated balance sheet of International Power Machines Corporation and subsidiaries as of December 31, 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period then ended were audited by other auditors whose report, dated February 26, 1988, expressed an unqualified opinion on those statements. The opinion of such auditors, however, does not cover the restatement of those statements as discussed in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Power Machines Corporation and subsidiaries as of December 31, 1988, and results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

As explained in Note 1 to the financial statements, the Company has given retroactive effect to the change in accounting for income taxes. We have also reviewed the adjustments described in Note 1 that were applied to restate the 1987 and 1986 financial statements. In our opinion, such adjustments are appropriate and have been properly applied to the 1987 and 1986 financial statements.

ARTHUR ANDERSEN & CO.
Dallas, Texas
February 17, 1989

MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION, SEPTEMBER 30, 1988

Independent Auditors' Report

The Board of Directors and Stockholders
Mutual Federal Savings and Loan Association
Elkin, North Carolina:

We have audited the consolidated statement of financial condition of Mutual Federal Savings and Loan Association and subsidiary (Mutual Federal) as of September 30, 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Mutual Federal's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Mutual Federal as of September 30, 1987 and 1986, were audited by other auditors whose report, dated November 12, 1987, and November 4, 1988, expressed an unqualified opinion on those statements.

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

In our opinion, the 1988 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mutual Federal Savings and Loan Association and subsidiary as of September 30, 1988, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

PEAT MARWICK MAIN & CO.
Charlotte, North Carolina
November 4, 1988

EXPLANATORY PARAGRAPH

BANCTEXAS GROUP INC., DECEMBER 31, 1988

Independent Auditor's Report

To the Stockholders and Board of Directors, BancTEXAS Group Inc.:

We have audited the consolidated balance sheets of BancTEXAS Group Inc. and subsidiaries (the "Company") as of December 31, 1988 and 1987, and the related consolidated statements of operations and changes in stockholders' equity for the two years then ended, cash flows for the year ended December 31, 1988, and changes in financial position for the year ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of operations of BancTEXAS Group Inc. and subsidiaries, and changes in stockholders' equity (deficit), and changes in financial position for the year ended December 31, 1986, were audited by other auditors whose report, dated March 20, 1987 (except with respect to the matters discussed in the fourth paragraph of their report, as to which the date is March 17, 1989), included an explanatory paragraph that describes the current operating environment.

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

In our opinion, the 1988 and 1987 consolidated financial statements referred to above present fairly, in all material respects, the financial position of BancTEXAS Group Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations for the years then ended, their cash flows for the year ended December 31, 1988, and the changes in their financial position for the year ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company expects to incur an operating loss in 1989, which will have negative effects on the Company's financial position and capital adequacy and may affect liquidity. Without additional capital, BTX or its Bank Subsidiaries are or may be below regulatory minimum capital requirements in 1989. The ultimate outcome and the effects of these matters on the 1988 financial statements, if any, cannot presently be determined.

As discussed in Note 1 to the consolidated financial statements, the Company has presented a consolidated statement of cash flows for the year ended December 31, 1988, and a consolidated statement of changes in financial position for the years ended December 31, 1987 and 1986.

TOUCHE ROSS & CO.
March 13, 1989
Dallas, Texas

CAPITOL BANCORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors and Stockholders
Capitol Bancorporation:

We have audited the accompanying consolidated balance sheets of Capitol Bancorporation and subsidiaries as of December 31, 1988, and 1987, the related consolidated statements of operations and stockholders' equity for the years then ended, the statement of cash flows for the year ended December 31, 1988, and the statement of changes in financial position for the year ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Capitol Bancorporation and subsidiaries for the year ended December 31, 1986, were examined by other auditors whose report, dated May 11, 1987, on such statements included an explanatory paragraph relating to the litigation discussed in note 12 to the consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capitol Bancorporation and subsidiaries at December 31, 1988 and 1987, the results of their operations for the years then ended, their cash flows for the year ended December 31, 1988, and their changes in financial position for the year ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 12 to the consolidated financial statements, the Company has reached a tentative settlement of a purported class action lawsuit filed in April 1987. The consolidated statement of operations for the year ended December 31, 1988, includes a $2,500,000 provision for the settlement.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," in 1988.

PEAT MARWICK MAIN & CO.
Boston, Massachusetts
January 29, 1989

CYCARE SYSTEMS, INC., DECEMBER 31, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
CyCare Systems, Inc.
Phoenix, Arizona:

We have audited the accompanying consolidated balance sheet of CyCare Systems, Inc. and subsidiaries as of December 31, 1988, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CyCare Systems, Inc. and subsidiaries for the years ended December 31, 1987 and 1986, were audited by other auditors whose report, dated February 18, 1988, on those statements included an explanatory paragraph that described the adoption of Financial Accounting Standards Board Statement No. 96, "Accounting for Income Taxes," which was adopted in 1987.

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

In our opinion, the 1988 financial statements referred to above present fairly, in all material respects, the consolidated financial position of CyCare Systems, Inc. and subsidiaries at December 31, 1988, and the consolidated results of their operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company adopted Financial Accounting Standards Board Statement No. 95, "Statement of Cash Flows." As permitted by the statement, the Company has presented a statement of cash flows for 1988 and statements of changes in financial position for 1987 and 1986.

ERNST & WHINNEY
Phoenix, Arizona
March 24, 1989

DSC COMMUNICATIONS CORPORATION, DECEMBER 31, 1988

To the Shareholders and Board of Directors of DSC Communications Corporation:

We have audited the accompanying consolidated balance sheets of DSC Communications Corporation and subsidiaries (the Company) at December 31, 1988 and 1987, and the related statements of income, cash flows, and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of income, changes in shareholders' equity, and cash flows of the Company for the year ended December 31, 1986, were examined by other independent auditors whose report dated February 13, 1987, and reissued under the date of February 13, 1987, except with respect to the matter discussed in the "Discontinued Operations" note, as to which the date is February 9, 1989, included an explanatory paragraph regarding purported class action lawsuits against the Company described in the notes to the consolidated financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1988 and 1987, and the consolidated results of operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As described in the "Commitment and Contingencies" note to the consolidated financial statements, a purported class action lawsuit has been filed against the Company, the outcome of which is not certain at this time. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying consolidated financial statements.

ARTHUR YOUNG & COMPANY
Dallas, Texas
February 9, 1989

NEVADA POWER COMPANY, DECEMBER 31, 1988

Independent Auditors' Report

To the Shareholders and Board of Directors of Nevada Power Company:

We have audited the balance sheets and statements of capitalization of Nevada Power Company as of December 31, 1988 and 1987, and the related statements of income, premium on capital stock, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of income, premium on capital stock, retained earnings, and cash flows of Nevada Power Company for the year ended December 31, 1986, were audited by other auditors whose reissued report thereon, dated February 17, 1987, includes an explanatory paragraph consistent with the last paragraph below.

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

In our opinion, such 1988 and 1987 financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1988 and 1987, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 8 to the financial statements, in 1986 the Public Service Commission of Nevada ordered that one-half of approximately $15.3 million in increased expenses, incurred due to an accident in 1985 at the Mohave generating station, be collected in energy rates subject to refund. The remaining increased expenses have been deferred and their ultimate disposition, including subsequent carrying charges, is dependent upon the outcome of a Commission review of the accident.

DELOITTE HASKINS & SELLS
Las Vegas, Nevada
February 17, 1989

RAND CAPITAL CORPORATION, DECEMBER 31, 1988

Independent Auditor's Report

The Board of Directors and Stockholders
Rand Capital Corporation
Buffalo, New York:

We have audited the consolidated statements of financial position (including the consolidated portfolio of investments) of Rand Capital Corporation and subsidiary as of December 31, 1988 and

1987, and the related statements of operations, changes in net assets, and schedule of selected per share data and ratios for each of the two years then ended. These consolidated financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Rand Capital Corporation and subsidiary as of December 31, 1986, were audited by other auditors, whose report, dated February 23, 1987, on those consolidated statements included an explanatory paragraph that described the valuation of securities at fair value as determined by the Board of Directors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our procedures included examination of securities owned as of December 31, 1988 and 1987. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Rand Capital Corporation and subsidiary as of December 31, 1988 and 1987, and the results of their operations, changes in their net assets, and selected per share data and ratios for the years then ended, in conformity with generally accepted accounting principles.

As explained in Note A, the financial statements include securities whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at their estimate of value of such securities and have inspected underlying documentation, and in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

As discussed in Note B to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1988.

Touche Ross & Co.
Certified Public Accountants
Buffalo, New York
January 31, 1989

QUALIFIED OPINION OR DISCLAIMER OF OPINION BY OTHER AUDITOR

BARTON INDUSTRIES, INC., SEPTEMBER 30, 1988

Auditors' Report

The Board of Directors and Stockholders, Barton Industries, Inc.:

We have audited the consolidated balance sheet of Barton Industries, Inc. and subsidiaries as of September 30, 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Barton Industries, Inc. and subsidiaries as of September 30, 1987 and for the years ended September 30, 1987, and 1986, before restatement for the 1988 pooling of interest transactions, were audited by other auditors whose report dated November 3, 1987, on those statements was qualified as being subject to the effects on the 1987 and 1986 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty relating to the Company's ability to restructure its financing arrangements and/or obtain additional sources of financing or capital and thereby to continue as a going concern been known.

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

In our opinion, the 1988 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barton Industries, Inc. and subsidiaries as of September 30, 1988, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND
Tulsa, Oklahoma
November 30, 1988

EDISON SAULT ELECTRIC COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To Edison Sault Electric Company:

We have audited the accompanying statement of financial position and statement of capitalization of Edison Sault Electric Company (a Michigan corporation) as of December 31, 1988, and the related statements of income, changes in common equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of financial position and statement of capitalization of Edison Sault Electric Company as of December 31, 1987, and the related statements of income, changes in common equity, and cash flows for each of the two years in the period ended December 31, 1987, were audited by other auditors, whose report dated February 19, 1988, expressed an unqualified opinion on those statements except for the change in the method of recognizing revenue as described in Note 1 to the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edison Sault Electric Company as of December 31, 1988, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.
Detroit, Michigan
February 17, 1989

FPS COMPUTING, OCTOBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Floating Point Systems, Inc.
(dba FPS Computing):

We have audited the accompanying consolidated balance sheets of FPS Computing and its subsidiaries as of October 31, 1988 and 1987, and the related consolidated statements of operations, of cash flows, and of shareholders' equity for each of the two years in the period ended October 31,

1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of FPS Computing for the year ended October 31, 1986, were examined by other independent accountants whose report, dated December 22, 1986, expressed an opinion qualified for the uncertainty referred to in the penultimate paragraph below.

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

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of FPS Computing and its subsidiaries at October 31, 1988 and 1987, and the results of their operations and their cash flows for each of the two years in the period ended October 31, 1988, in conformity with generally accepted accounting principles.

As discussed in the litigation note to the consolidated financial statements, FPS Computing is a defendant in lawsuits alleging violations of state and federal securities laws. While the Company is aggressively defending the suits, the ultimate outcome of these matters cannot presently be determined, and accordingly, the accompanying financial statements do not include any adjustments which may be required upon resolution of these uncertainties.

We also reviewed the adjustments described on page 16 that were applied to reclassify certain components of working capital contained in the 1986 financial statements. In our opinion, such adjustments are appropriate and have been properly applied to those financial statements.

PRICE WATERHOUSE
Portland, Oregon
January 20, 1989

HECHINGER COMPANY, JANUARY 28, 1989

Report of Independent Auditors

Board of Directors and Stockholders
Hechinger Company:

We have audited the accompanying consolidated balance sheet of Hechinger Company and subsidiaries as of January 28, 1989, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended. The financial statements of Hechinger Company and subsidiaries for the years ended January 30, 1988, and January 31, 1987, were audited by other auditors whose report, dated March 15, 1988, on those statements expressed an unqualified opinion except for the change in 1988 in the method of determining inventory costs as described in the notes to the financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the 1989 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hechinger Company and subsidiaries at January 28, 1989, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

ERNST & WHINNEY
Washington, D.C.
March 13, 1989

IBI SECURITY SERVICE, INC., OCTOBER 2, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders
IBI Security Service, Inc.:

We have audited the accompanying balance sheet of IBI Security Service, Inc. as of October 2, 1988, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the years ended September 30, 1987 and 1986, prior to restatement, were examined by other auditors. The report for 1987, which was dated April 1, 1988 (except for Notes 5 and 11, as to which the date was April 8, 1988), expressed an opinion on the balance sheet only and disclaimed an opinion on the statements of operations, changes in stockholders' equity, and changes in financial position, as the prior accountants were not able to satisfy themselves as to the classification and amount of certain account balances as of October 1, 1986. The report for 1986, which was dated December 12, 1986, expressed a qualified opinion on such financial statements relating to the classification of certain debt as long-term. The financial statements have been restated for 1987 to reflect the discontinued operations of the uniform division and for 1986 to reflect the discontinued operations of both the uniform and alarm divisions as described in Note 2. The 1986 financial statements have been additionally restated to reflect the debt mentioned above as short-term (see Note 7).

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IBI Security Service, Inc. as of October 2, 1988, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the Company adopted SFAS No. 95 (Statement of Cash Flows) during the year ended October 2, 1988.

KAMLER, BERGMAN, SHOR & LEWIS
Great Neck, New York
January 15, 1989 (except for Notes 2, 7, and 9, as to which the date is February 8, 1989)

NEWPORT PHARMACEUTICALS INTERNATIONAL, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

Board of Directors and Shareholders
Newport Pharmaceuticals International, Inc.:

We have audited the accompanying consolidated balance sheets of Newport Pharmaceuticals International, Inc. at December 31, 1988 and 1987; the related consolidated statements of operations and changes in shareholders' equity for the year and the eight months then ended; the consolidated statement of cash flows for the year ended December 31, 1988 (presented in accordance with Statement of Financial Accounting Standards No. 95—see Note 1); and the consolidated statement of changes in financial position for the eight months ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements of Newport Pharmaceuticals International, Inc. at April 30, 1987, and for the two years then ended were audited by other auditors whose report, dated June 23, 1987, expressed an opinion that was qualified, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the litigation discussed in Note 12 to the financial statements been known.

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

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Newport Pharmaceuticals International, Inc. at December 31, 1988, and 1987; the consolidated results of operations for the year ended December 31, 1988, and the eight months ended December 31, 1987; consolidated cash flows for the year ended December 31, 1988; and consolidated changes in financial position for the eight months ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 12, the Company is involved in litigation with certain shareholders. Management believes that the assertions of the shareholders are without merit. However, because of the status of the discovery and the stage of the proceedings, the ultimate outcome of the lawsuits cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements.

/s/ ARTHUR YOUNG & COMPANY
Orange County, California
February 24, 1989

RAGEN CORPORATION, SEPTEMBER 30, 1988

Opinion of Independent Certified Public Accountants

To the Board of Directors and Shareholders of Ragen Corporation:

We have audited the consolidated financial statements of Ragen Corporation and subsidiaries as of September 30, 1988 and 1987, and for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Ragen Corporation as of September 30, 1986, were audited by other auditors whose report, dated December 29, 1986, except for changes to report the effects of discontinued operations as described in note 9, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ragen Corporation and subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 8 to the consolidated financial statements, the Company is subject to claims or counterclaims in three proceedings. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision has been made in the accompanying financial statements for any liability that may ultimately result from these matters other than $350,000 in estimated legal fees.

WISS & COMPANY
Livingston, New Jersey
December 13, 1988

TOTH ALUMINUM CORPORATION, AUGUST 31, 1988

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Toth Aluminum Corporation
Metairie, Louisiana:

We have audited the accompanying balance sheets of Toth Aluminum Corporation (a development stage enterprise) as of August 31, 1988 and 1987 and the Schedule of Indebtedness of and to Related Parties—Not Current as of August 31, 1988, 1987, and 1986, and the related statements of operations and deficit accumulated during the development stage, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 1988, and the related statements of operations and deficit accumulated during the development stage, stockholders' equity, and cash flows for the period from August 1966 (inception) to August 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for each of the years in the period from August 1966 (inception) to August 31, 1983 (not presented herein). Those statements were audited by other auditors whose reports have been furnished to us. The reports of the other auditors on those statements were qualified as being subject to the effects of such adjustments, if any, as might have been required had the resolution of various uncertainties been known. The uncertainties referred to in the other auditors' reports were factors which indicated that the Company might be unable to continue in existence. Our opinion expressed herein, insofar as it relates to the cumulative amounts included in the statements of operations and deficit accumulated during the development stage, stockholders' equity, and cash flows for the period from August 1966 (inception) to August 31, 1983, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and, for 1966 (Inception) through 1983, the reports of other auditors referred to above, the financial statements referred to above present fairly, in all material respects, the financial position of Toth Aluminum Corporation at August 31, 1988 and 1987, the results of its operations and cash flows for each of the three years in the period ended August 31, 1988, and the results of its operations and cash flows for the period from August 1966 (inception) through August 31, 1988, in conformity with generally accepted accounting principles.

Further, it is our opinion that the Schedule of Indebtedness of and to Related Parties—Not Current presents fairly, in all material respects, the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

The accompanying financial statements have been prepared assuming that Toth Aluminum Corporation will continue as a going concern. As discussed in Note 1, there are conditions which raise substantial doubt about the Company's ability to continue as a going concern unless certain conditions are met, including its investee's achieving successful commercial operations and the Company's obtaining sufficient cash flow to fund its operations and the investee's capital and operating needs. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of Toth Aluminum Corporation to continue as a going concern.

As discussed in Note 2, the Company's investment in and advances to Armant at August 31, 1988, were $21,726,000. Substantially all advances have been invested in the Armant facility, expended on other costs which have been deferred by Armant, or used to fund the partnership losses. The collectibility of the amounts reported by the Company is dependent on Armant's commencing and sustaining sufficiently profitable commercial operations. To achieve such a level of commercial operations, Armant must complete planned modifications to its metal chlorides production facility, and it must complete the design of and construct a facility for the successful production of aluminum oxides. In addition, Armant must obtain additional financing to fund these expansion programs. Since the likelihood of these events occurring cannot presently be determined, no provision for the possible uncollectibility of the advances to Armant or loss of its investment in Armant has been made in the financial statements.

As discussed in Note 12, proceeds of the Company's 1986 Debenture Offering were not applied in the manner the Company intended, and not all debentures were sold for cash. The variance in the terms of the Debenture Offering may require a rescission of the Offering. The ultimate outcome of this matter cannot presently be determined, and no provision for a loss that may result has been made in the financial statements.

ERNST & WHINNEY
New Orleans, Louisiana
October 20, 1988

AUDITOR'S COMMENTS REGARDING APPROPRIATENESS OF ADJUSTMENTS

METRO MOBILE CTS, INC., SEPTEMBER 30, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of Metro Mobile CTS, Inc.:

We have audited the consolidated balance sheet of Metro Mobile CTS, Inc. and subsidiaries as of September 30, 1988, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Metro Mobile CTS, Inc. and subsidiaries as of September 30, 1987, and the related consolidated statements of operations, shareholders' equity (deficit), and changes in financial position for the years ended September 30, 1987 and 1986, prior to restatement to include consolidated statements of cash flows in place of consolidated statements of financial position, were audited by other auditors, whose report, dated November 23, 1987, expressed an unqualified opinion on those financial statements.

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

In our opinion, the 1988 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Metro Mobile CTS, Inc. and subsidiaries as of September 30, 1988, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

We also reviewed the adjustments which were applied to restate the 1987 and 1986 financial statements referred to above to include consolidated statements of cash flows in place of consolidated statements of changes in financial position. In our opinion, such adjustments were appropriate and have been properly applied to the 1987 and 1986 financial statements.

COOPERS & LYBRAND
New York, New York
November 16, 1988

PACIFIC FIRST FINANCIAL CORPORATION, DECEMBER 31, 1988

To the Board of Directors and Stockholders of Pacific First Financial Corporation:

We have audited the accompanying consolidated balance sheets of Pacific First Financial Corporation and subsidiaries ("Pacific First") as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Pacific First's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Pacific First Financial Corporation and subsidiaries as of December 31, 1986, were audited by other auditors, whose report, dated January 30, 1987, expressed an unqualified opinion on those statements, before the restatement described in Note 1 to reflect the retroactive adoption of both Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" (SFAS No. 91), and Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows."

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

We also reviewed the adjustments described in Note 1 that were applied to restate the 1986 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific First Financial Corporation and subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, Pacific First changed its method of providing income taxes for financial statement purposes beginning in 1988 by adopting Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." As discussed in Note 1, Pacific First retroactively adopted SFAS No. 91 by restating previously issued consolidated financial statements.

At December 31, 1988, Pacific First has notes receivable from the Federal Savings and Loan Insurance Corporation (FSLIC) of $83.4 million and other assets of $136.2 million that have been guaranteed by the FSLIC in connection with the acquisitions of two troubled thrifts during 1988. Various government reports have recently indicated that the required assistance related to all troubled thrifts over the next five years will have an estimated cost to the FSLIC in substantial excess of its current capital. Therefore, as described in Note 2 to the consolidated financial statements, the ultimate recovery of these receivables and assets is uncertain and dependent upon the ability of the FSLIC to perform under its obligations and guarantees.

/s/ PEAT MARWICK MAIN & CO
Seattle, Washington
January 25, 1989

TELEMATION, INC., DECEMBER 31, 1988

Report of Independent Accountants

Board of Directors and Stockholders
Telemation, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Telemation, Inc. and Subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Telemation, Inc. and Subsidiaries for the year ended December 31, 1986, were audited by other auditors, whose report, dated January 30, 1987, expressed an unqualified opinion on those statements, before the restatement described in Note 2 to the consolidated financial statements.

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

In our opinion, the 1988 and 1987 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telemation, Inc. and Subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

We also reviewed the adjustments described in Note 2 to the consolidated financial statements that were applied to restate the 1986 statement of changes in financial position to a statement of cash flows. In our opinion, such adjustments are appropriate and have been properly applied.

COOPERS & LYBRAND
Denver, Colorado
January 25, 1989

V

EMPHASIS OF A MATTER

SAS No. 58 permits an auditor to emphasize, in a separate paragraph of the report, a matter regarding the financial statements without qualifying his or her opinion because of the matter. In addition, auditors sometimes disclose emphasized matters in the scope or opinion paragraphs. Twenty-one examples of auditors' reports that contain such an emphasis in a separate paragraph or in the scope or opinion paragraphs are presented below. The examples are classified according to the nature of the matter emphasized. Some of the examples also contain other departures from the standard report.

PURCHASE OR SALE OF AN ASSET, SHARES OF STOCK, SUBSIDIARY, INVESTEE, SEGMENT, OR LINE OF BUSINESS

BEATRICE COMPANY, FEBRUARY 28, 1989

Independent Auditors' Report

The Board of Directors and Stockholders
Beatrice Company:

We have audited the accompanying consolidated balance sheet of Beatrice Company and subsidiaries ("Beatrice") as of February 28, 1989, and February 29, 1988, and the related consolidated statements of earnings, stockholders' equity, and cash flows of Beatrice for the years ended February 28, 1989, and February 29, 1988, and for the period from April 17, 1986, to February 28, 1987 ("Successor Periods"), and of Beatrice Companies, Inc. and subsidiaries ("Old Beatrice") for the period from March 1, 1986, to April 16, 1986 ("Predecessor Period"). These consolidated financial statements are the responsibility of Beatrice's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beatrice at February 28, 1989, and February 29, 1988, and the results of its operations and its cash flows for the Successor Periods in conformity with generally accepted accounting principles. Also, in our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Old Beatrice for the Predecessor Period in conformity with generally accepted accounting principles.

As more fully described in Note 2 to the consolidated financial statements, Beatrice acquired Old Beatrice on April 17, 1986, in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial statements for the Successor Periods are presented on a different basis of accounting than that of the Predecessor Period and, therefore, are not comparable.

PEAT MARWICK MAIN & CO.
Chicago, Illinois
April 21, 1989

MARLTON TECHNOLOGIES, INC., DECEMBER 31, 1988

Independent Auditor's Report

The Board of Directors and Shareholders
Marlton Technologies, Inc.:

We have audited the consolidated balance sheets of Marlton Technologies, Inc. (formerly Tele-Sciences, Inc.) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 1988, 1987, and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Notes 1, 2, and 3, during 1986 and 1987, the Company initiated a series of transactions whereby all of the net assets of its operating subsidiaries were sold or exchanged for shares of capital stock of companies which are no longer controlled by management of the Company. On January 13, 1988, the Company received shareholder approval of the sale and exchange of these net assets, and since that date, the Company has had limited revenue-producing operations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marlton Technologies, Inc. and subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for the years ended December 31, 1988, 1987 and 1986, in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND
2400 Eleven Penn Center
Philadelphia, Pennsylvania
March 15, 1989

T.I.M.E.-DC, INC., JUNE 30, 1988

Independent Auditor's Report

To the Board of Directors and Stockholders of T.I.M.E.-DC, Inc.:

We have audited the accompanying balance sheets of T.I.M.E.-DC, Inc. as of June 30, 1988 and 1987, and the related statements of loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 1988, and the schedules listed in the Index of Financial Statements and Schedules. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

As discussed in Note 1, the Company discontinued its trucking operations on March 18, 1988, and presently has no remaining operating business. The accompanying financial statements for 1987 and 1986 have been reclassified to give effect to the Company's decision to discontinue its trucking operations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of T.I.M.E.-DC, Inc. as of June 30, 1988, and 1987, and the results of its operations and its cash flows for the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles, and the schedules listed in the Index of Financial Statements and Schedules present fairly, when read in conjunction with the related financial statements, the information therein set forth.

The accompanying financial statements have been prepared assuming that the Company will realize its assets and settle its obligations in an orderly manner. As discussed in Note 3, the Company has a $2.2 million reserve for the estimated cost of settling potential claims which may be asserted by various pension funds against the Company for withdrawal liability under the Multiemployer Pension Plan Amendments Act of 1980. The amount of the ultimate settlement of these claims and other liabilities associated with the discontinued trucking operations cannot presently be determined. Further, unless the Company is able to obtain or generate additional resources, the amounts to be realized upon disposition of assets and the amounts and order of maturities of liabilities could be adversely affected.

Touche Ross & Co.
Certified Public Accountants
Dallas, Texas
September 23, 1988

SUBSEQUENT EVENT

EMERY AIR FREIGHT CORPORATION, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Stockholders of Emery Air Freight Corporation:

In our opinion, the consolidated financial statements listed in the index appearing on Page F-1 as incorporated by reference under Item 14(a) (1) and (2) included in this Form 10-K present fairly, in all material respects, the financial position of Emery Air Freight Corporation and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 17, on February 17, 1989, Consolidated Freightways, Inc. (''CF''), through a wholly-owned subsidiary, commenced a tender offer to purchase any and all outstanding shares of the Company's common stock and cumulative convertible preferred stock. As a result of the shares purchased by CF in the offer and a separate purchase from the Company's Employee Stock Ownership Plan, CF owned in excess of 90% of the outstanding common and preferred stock of the Company. In April 1989, in accordance with the terms of the agreement and plan of merger dated February 12, 1989, between CF and the Company, the air freight operations of CF and the Company were combined.

PRICE WATERHOUSE
Stamford, Connecticut
April 14, 1989

NORTH AMERICAN BIOLOGICALS, INC., DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Stockholders of North American Biologicals, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of North American Biologicals, Inc. and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 5 to the financial statements, in July 1988, the Company and its major stockholder (CPCI) entered into a Loan and Security Agreement, Option Agreement, and Management Agreement. In April 1989, the Company and CPCI entered into a new agreement to cancel the Option and Management Agreements and provide that all amounts owed to the Company under these agreements be added to the Loan and Security Agreement and be due in full on March 31, 1990.

PRICE WATERHOUSE
Miami, Florida
April 14, 1989

TEXAS EASTERN CORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors
Texas Eastern Corporation:

We have audited the consolidated balance sheets of Texas Eastern Corporation and Subsidiary Companies as of December 31, 1988, 1987, and 1986, and the related consolidated statements of income, retained earnings, additional paid-in capital, foreign currency translation adjustments and common stock held by ESOP, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Eastern Corporation and Subsidiary Companies at December 31, 1988, 1987, and 1986, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1988 the Company changed its method of accounting retroactively for its real estate operations from the equity method to full consolidation.

As discussed in Note 20 to the financial statements, on January 17, 1989, Colorado Interstate Corporation, a wholly owned subsidiary of The Coastal Corporation, commenced a $42.00 a share all-cash tender offer for all the outstanding shares of the Company's common stock. On February 20, 1989, Panhandle Eastern Corporation announced a tender offer of $53 a share in cash for up to 80% of the Company's common stock. The Company's Board of Directors recommended acceptance of the Panhandle Eastern Corporation offer and approved an agreement and Plan of Merger which was entered into the same date.

PEAT MARWICK MAIN & CO.
Houston, Texas
February 1, 1989, except as to the second paragraph of Note 20, which is as of February 20, 1989

TRANSACTIONS WITH RELATED PARTIES

DIRECT PHARMACEUTICAL CORPORATION, SEPTEMBER 30, 1988

Report of Independent Accountants

To the Stockholders and Board of Directors of Direct Pharmaceutical Corporation:

We have audited the accompanying consolidated balance sheet of Direct Pharmaceutical Corporation as of September 30, 1988, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully described in Note 13 to the consolidated financial statements, Direct Pharmaceutical Corporation has significant transactions with related parties.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Direct Pharmaceutical Corporation as of September 30, 1988, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

During the year ended September 30, 1988, Direct Pharmaceutical Corporation was merged with Doctor's Pharmacy. Separate financial statements of both companies included in the 1987 restated consolidated balance sheet, statements of operations, stockholders' equity, and cash flows were examined and reported upon separately by other auditors. We have applied procedures to the combination of the accompanying consolidated balance sheet, statements of operations, stockholders' equity, and cash flows for the year ended September 30, 1987, after restatement for the 1988 merger accounted for similar to a pooling of interests; in our opinion, such consolidated statements have been properly combined on the basis described in Note 3 of the notes to the consolidated financial statements.

/s/ PRICE WATERHOUSE
St. Louis, Missouri
January 13, 1989

ICN PHARMACEUTICALS, INC., NOVEMBER 30, 1988

Report of Independent Public Accountants

To ICN Pharmaceuticals, Inc.:

We have audited the accompanying consolidated balance sheets of ICN Pharmaceuticals, Inc. (a Delaware corporation) and subsidiaries as of November 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

The Company has had certain transactions with its majority-owned subsidiaries and a joint venture, as more fully described in Notes 2, 3, 4, 5, 6, and 11 to the consolidated financial statements. Whether the terms of these transactions would have been the same had they been between wholly unrelated parties cannot be determined.

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of ICN Pharmaceuticals, Inc. and subsidiaries as of November 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, at November 30, 1988 and 1987, the Company had goodwill related to the investment in its 73-percent-owned subsidiary, Viratek, Inc. ("Viratek") totaling $64,015,000 and $63,091,000, respectively. The realization of this goodwill is uncertain and is dependent upon an increase in commercial applications of Viratek's main product, ribavirin, as well as the commercial development of other pharmaceutical products for which Viratek holds patents or other rights.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for issuances of subsidiaries' stock in 1988 and for certain inventory costs and income taxes in 1987.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.
Los Angeles, California
February 10, 1989, except for Note 16, as to which the date is February 14, 1989

UNIMAR COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To The Partners of Unimar Company:

We have audited the consolidated financial statements of Unimar Company and subsidiaries listed in the accompanying index to consolidated financial statements (Item 14(a)(1) and (2)). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of ENSTAR Petroleum Company, a division of ENSTAR Corporation, which is a wholly owned subsidiary of Unimar Company, which statements reflect total assets constituting 22% and 23% of consolidated assets at December 31, 1988 and 1987, respectively, and total revenues constituting 20%, 23%, and 29% of the consolidated revenues for each of the years ended December 31, 1988, 1987, and 1986, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ENSTAR Petroleum Company, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unimar Company and subsidiaries at December 31, 1988 and 1987, and the related consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As more fully described in the notes to the consolidated financial statements, the Company has material transactions with its partners and affiliates.

ARTHUR YOUNG & COMPANY
New York, N.Y.
March 17, 1989

THE VADER GROUP INC., SEPTEMBER 30, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of The Vader Group Inc.:

We have audited the accompanying consolidated financial statements and the financial statement schedules of The Vader Group Inc. (formerly Magicsilk, Inc.) and Subsidiaries listed in the Index to Consolidated Financial Statements and Schedules of this Form 10-K. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 2, the purchaser of the Company's artificial flower and plant operations has advised the Company that it disputes the unrecorded balance due on the calculated purchase price of approximately $470,000 and intends to pursue a claim of approximately $4,000,000 based upon breach of contract and misrepresentation. Company management and its counsel are of the opinion that such claims are without merit and that the Company has complied with the terms of the sale agreement. However, if such claims are pursued, it is not possible to determine the potential outcome of the matter.

As described in Note 8, an account receivable of approximately $2,612,000 at September 30, 1988, from a related party was not sold to the purchaser of the artificial flower and plant operation. The receivable may be put to the Company's Chairman of the Board pursuant to an agreement whereby he has agreed to purchase on or before June 30, 1989, for cash, any such account receivable which remains outstanding.

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Vader Group Inc. and Subsidiaries as of September 30, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles. In addition, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

COOPERS & LYBRAND
December 16, 1988
Newark, New Jersey

IDENTIFICATION OF AFFILIATE AND PRINCIPAL OWNERS

ASSOCIATES FIRST CAPITAL CORPORATION, OCTOBER 31, 1988

Board of Directors
Associates First Capital Corporation:

We have audited the accompanying consolidated balance sheets of Associates First Capital Corporation (a wholly owned subsidiary of Gulf-Western Inc.) as of October 31, 1988 and 1987, and the related consolidated statements of earnings, changes in stockholders' equity, and cash flows for each of the three years in the period ended October 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Associates First Capital Corporation at October 31, 1988 and 1987, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1988, in conformity with generally accepted accounting principles.

/s/ ERNST & WHINNEY
Dallas, Texas
December 15, 1988

BANKS OF MID-AMERICA, INC., DECEMBER 31, 1988

Report of Independent Public Accountants

The Board of Directors
Liberty Mortgage Company:

We have audited the consolidated balance sheets of Liberty Mortgage Company (Company) at December 31, 1988 and 1987, the related consolidated statements of operations and stockholders' equity for each of the three years in the period ended December 31, 1988, the consolidated statement of cash flows for the year ended December 31, 1988 (presented in accordance with Statement of Financial Accounting Standards No. 95), and the consolidated statement of changes in financial position for each of the two years in the period ended December 31, 1987 (none of which are presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Liberty Mortgage Company at December 31, 1988 and 1987, the consolidated results of operations for each of the three years in the period ended December 31, 1988, cash flows for the year ended December 31, 1988, and changes in financial position for each of the two years in the period ended December 31, 1987, in conformity with generally accepted accounting principles.

Liberty Mortgage Company is one of several affiliated members of Banks of Mid-America, Inc. and a substantial portion of its activities is with or is arranged by members of the affiliated group.

ARTHUR YOUNG & COMPANY
Oklahoma City, Oklahoma
January 18, 1989

LIFECORE BIOMEDICAL, INC., JUNE 30, 1988

Report of Independent Certified Public Accountants

Shareholders and Board of Directors
LifeCore Biomedical, Inc.:

We have audited the accompanying consolidated balance sheets of LifeCore Biomedical, Inc. (a Minnesota corporation) and its subsidiary as of June 30, 1988 and 1987, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in notes H and I, approximately twenty-two percent of LifeCore Biomedical, Inc.'s common stock is owned by Cilco, Inc., an indirect, wholly owned subsidiary of The Cooper Companies, Inc. ("Cilco"). Cilco is also LifeCore Biomedical, Inc.'s major customer.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LifeCore Biomedical, Inc. as of June 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON
Minneapolis, Minnesota
August 23, 1988

TRAK AUTO CORPORATION, JANUARY 31, 1989

Report of Independent Public Accountants

To Trak Auto Corporation:

We have audited the accompanying consolidated balance sheets of Trak Auto Corporation (a Delaware corporation and a majority-owned subsidiary of Dart Group Corporation) and subsidiaries as of January 31, 1989 and 1988, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trak Auto Corporation and subsidiaries as of January 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 1989, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.
Washington, D.C.
April 19, 1989

VACATION SPA RESORTS, INC., AUGUST 31, 1988

Independent Auditors' Report

Board of Directors
Vacation Spa Resorts, Inc.:

We have audited the accompanying consolidated balance sheet of Vacation Spa Resorts, Inc. and subsidiaries (an 80%-owned subsidiary of Preferred Equities Corporation) as of August 31, 1987, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended August 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vacation Spa Resorts, Inc. and its subsidiaries at August 31, 1987, and the results of their operations and their cash flows for each of the two years in the period ended August 31, 1987, in conformity with generally accepted accounting principles.

DELOITTE HASKINS & SELLS
Las Vegas, Nevada
November 30, 1987

OTHER KINDS OF EMPHASIS

ALLIS-CHALMERS CORPORATION, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Allis-Chalmers Corporation:

In our opinion, the consolidated financial statements of Allis-Chalmers Corporation and its subsidiaries listed in the index appearing on page 20 present fairly, in all material respects, the financial position of Allis-Chalmers Corporation and its subsidiaries at December 31, 1988 and 1987, and the results of their operations for each of the three years in the period ended December 31, 1988, and their cash flows for the year ended December 31, 1988, and their changes in financial position for each of the two years in the period ended December 31, 1987, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in the Summary of Significant Accounting Policies note to the financial statements, in 1988 the Company adopted prospectively the provisions of Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows."

As more fully described in the Emergence from Chapter 11 note to the financial statements, on June 29, 1987 Allis-Chalmers Corporation and 17 of its domestic subsidiaries (the "Debtor Corporations") filed separate voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. On October 31, 1988, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Debtor Corporations' First Amended and Restated Joint Plan of Reorganization (the "Plan"). Confirmation of the Plan resulted in the discharge of all debts of the Debtor Corporations that arose before October 31, 1988, and all claims and interests of creditors and equity security holders. Consummation of the Plan occurred on December 2, 1988.

PRICE WATERHOUSE
April 12, 1989

CAPITOL BANCORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors and Stockholders
Capitol Bancorporation:

We have audited the accompanying consolidated balance sheets of Capitol Bancorporation and subsidiaries as of December 31, 1988, and 1987, the related consolidated statements of operations and stockholders' equity for the years then ended, the statement of cash flows for the year ended December 31, 1988 and the statement of changes in financial position for the year ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Capitol Bancorporation and subsidiaries for the year ended December 31, 1986, were examined by other auditors whose report, dated May 11, 1987, on such statements included an explanatory paragraph relating to the litigation discussed in note 12 to the consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capitol Bancorporation and subsidiaries at December 31, 1988 and 1987, the results of their operations for the years then ended, their cash flows for the year ended December 31, 1988, and their changes in financial position for the year ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 12 to the consolidated financial statements, the Company has reached a tentative settlement of a purported class action lawsuit filed in April 1987. The consolidated statement of operations for the year ended December 31, 1988, includes a $2,500,000 provision for the settlement.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," in 1988.

PEAT MARWICK MAIN & CO.
Boston, Massachusetts
January 29, 1989

INTERNATIONAL GAME TECHNOLOGY, SEPTEMBER 30, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors of International Game Technology:

We have audited the accompanying consolidated balance sheet of International Game Technology (a Nevada corporation) and subsidiaries as of September 30, 1987, and the related consolidated statements of operations, cash flows, and changes in stockholders' equity for the fiscal year ended September 30, 1987, and the nine months ended September 30, 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 11 to the consolidated financial statements, the accompanying consolidated balance sheet and statements of operations, cash flows, and changes in stockholders' equity for fiscal 1987 have been restated to reflect accounting for the Company's investment in Syntech International, Inc. (Syntech) on the equity method for the entire 1987 fiscal year rather than changing to the cost method effective July 1, 1987. The staff of the Securities and Exchange Commission (SEC) disagreed with the Company's accounting treatment for the Company's investment in Syntech. Although the Company continues to believe that its previous accounting was appropriate, the Company agreed to follow the accounting required by the SEC.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Game Technology and subsidiaries as of September 30, 1987, and the results of their operations and cash flows for the fiscal year ended September 30, 1987, and the nine months ended September 30, 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of valuing used machines received in trade as of January 1, 1986.

Our audits of the financial statements were made for the purpose of forming an opinion on those statements taken as a whole. Supplemental schedules IV, VIII, IX, and X are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO
San Francisco, California
December 21, 1987 (except with respect to the matters discussed in Note 11, as to which the date is September 12, 1988)

ROYAL PALM BEACH COLONY, LIMITED PARTNERSHIP, SEPTEMBER 30, 1988

Independent Auditors' Report

Partners
Royal Palm Beach Colony, Limited Partnership
Miami, Florida:

We have audited the balance sheets of Royal Palm Beach Colony, Limited Partnership, formerly Royal Palm Beach Colony, Inc., and Subsidiaries (see Note 1), as of September 30, 1988 and 1987, and the related statements of income, Partners' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Note 1, the shareholders of Royal Palm Beach Colony, Inc. approved a "Plan of Complete Liquidation" which transferred all of the Company's assets, subject to all of its liabilities and obligations, to Royal Palm Beach Colony, Limited Partnership. The business purpose of the Partnership is the operation, management, and the orderly disposition of the assets and the distribution of the proceeds therefrom to unit holders.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Royal Palm Beach Colony, Limited Partnership as of September 30, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

In connection with our audits of the financial statements referred to above, we audited the financial statement schedules listed under Item 14(a)(2). In our opinion, these financial statement schedules present fairly, in all material respects, the information stated therein, when considered in relation to the financial statements taken as a whole.

LAVENTHOL & HORWATH
Coral Gables, Florida
December 13, 1988

SAHARA CASINO PARTNERS, L.P., SEPTEMBER 30, 1988

Independent Auditors' Report

Sahara Casino Partners, L.P.:

We have audited the accompanying consolidated balance sheets of Sahara Casino Partners, L.P. and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the year ended September 30, 1988 and the period July 30, 1987 (commencement of operations), through September 30, 1987. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sahara Casino Partners, L.P. and subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for the year ended September 30, 1988, and the period July 30, 1987 (commencement of operations), through September 30, 1987, in conformity with generally accepted accounting principles.

/s/ DELOITTE HASKINS & SELLS
Las Vegas, Nevada
October 31, 1988 (except for Note 12, as to which the date is December 1, 1988)

BELCOR INC., OCTOBER 31, 1988

Report of Independent Public Accountants

Board of Directors
Belcor Inc.
Irvine, California:

We have audited the accompanying consolidated balance sheets of Belcor Inc. (a California corporation, formerly Transierra Exploration Corporation) and subsidiaries as of October 31, 1988 and 1987, and the related consolidated statements of operations and shareholders' equity for the years ended October 31, 1988, 1987, and 1986, and consolidated statement of cash flows for the year ended October 31, 1988, and consolidated statements of changes in financial position for the years ended October 31, 1987 and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Belcor Inc. and subsidiaries as of October 31, 1988 and 1987, and the results of their operations for the years ended October 31, 1988, 1987, and 1986, and cash flows for the year ended October 31, 1988, and changes in financial position for the years ended October 31, 1987 and 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company has presented a statement of cash flows for the year ended October 31, 1988, rather than a statement of changes in financial position as presented for the years ended October 31, 1987 and 1986.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules IV, V, and VI are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 1, the Financial Statements for the years ended October 31, 1988 and 1987, have been restated to correct the accounting for a business combination accounted for as a purchase.

HELSLEY, MULCAHY & FESLER
Tustin, California
April 10, 1989

VI

CHANGE OF OPINION

An auditor may issue a report on the financial statements of one year (19X1) and in the following year may change that opinion when reporting on comparative statements (19X2 and 19X1). SAS No. 58 requires the later report to contain an explanatory paragraph that discloses the following information:

1. The date of the previous report.
2. The type of opinion previously expressed.
3. The circumstances that caused the auditor to express a different opinion.

The explanatory paragraph apparently does not have to be repeated in subsequent reports issued by the auditor on financial statements for subsequent years in which the statements for 19X1 are covered.

Five examples of auditors' reports that disclose a change in opinion on the financial statements of a prior year are presented below. Some of the examples contain additional departures from the standard report illustrated in other chapters. One of the examples, Flanigan's Enterprises, Inc., discloses that a disclaimer of opinion was changed to an unqualified opinion. The other four examples disclose that a subject-to opinion was changed to an unqualified opinion because of the resolution of an uncertainty or other reasons.

C.E.C. INDUSTRIES CORP., MARCH 31, 1989

Report of Independent Accountants

To the Stockholders and Board of Directors of C.E.C. Industries Corp.:

We have audited the consolidated financial statements and financial statement schedules of C.E.C. Industries Corp. and Subsidiaries as listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our report dated June 2, 1987, our opinion on the 1987 financial statements was qualified as being subject to the effects on the 1987 financial statements of such adjustment, if any, as might have been required had the outcome of certain litigation been known. The litigation was settled as of February 19, 1988. Accordingly, our present opinion on the 1987 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of C.E.C. Industries Corp. and Subsidiaries as of March 31, 1989 and 1988, and the consolidated results of their operations and cash flows for the years ended March 31, 1989 and 1988, and the consolidated results of their operations and changes in financial position for the nine-month period ended March 31, 1987, and for the year ended June 30, 1986, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Note 15 to the financial statements, the Company has adopted Statement of Financial Accounting Standards No. 95 and is presenting a Statement of Cash Flows for the years ended March 31, 1989 and 1988. Also, as discussed in Note 5 to the financial statements, the Company has adopted Statement of Financial Accounting Standards No. 96 and is accounting for income taxes as described.

Coopers & Lybrand
Salt Lake City, Utah
May 19, 1989

FLANIGAN'S ENTERPRISES, INC., OCTOBER 1, 1988

Report of Independent Public Accountants

To the Board of Directors and Stockholders of Flanigan's Enterprises, Inc.:

We have audited the consolidated balance sheets of Flanigan's Enterprises, Inc. (a Florida corporation) and subsidiaries as of October 3, 1987, and October 1, 1988, and the related consolidated statements of income (loss), stockholders' investment, and cash flows for each of the three years in the period ended October 1, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of CIC Investors #850 Ltd., CIC Investors #860 Ltd., CIC Investors #870 Ltd., and CIC Investors #880 Ltd. (the Pennsylvania Limited "Partnerships"), the Company's investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The total investment in the Partnerships represents 1% and 2% of total assets in 1987 and 1988, respectively, and the equity in their net income and management fees, which are based upon income, amounted to $897,000, $828,000, and $606,000 in 1986, 1987, and 1988, respectively. The statements of the Partnerships were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Partnerships, is based solely on the report of the other auditors. The opinion of the other auditors was subject to the effect on the financial statements of CIC Investors #870, Ltd. of the outcome of the litigation discussed in Notes 7 and 12 to the consolidated financial statements.

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

In our auditors' report dated December 16, 1986, we indicated that due to material uncertainties, we were unable to express an opinion on the 1986 consolidated financial statements. These material uncertainties included the amount and classification of liabilities settled in connection with the Company's November 4, 1985, filing for reorganization under Chapter 11 of the Bankruptcy Code, and the amount and classification of asserted Federal income tax deficiencies. On May 5, 1987, the Company's Amended Plan of Reorganization was confirmed by the Bankruptcy Court, and accordingly, related liabilities are now fixed as to amount and repayment terms. The Company and the Internal Revenue Service have reached an agreement as to the amount of an assessment, and the Bankruptcy Court has approved this settlement. On December 28, 1987, the Company was officially discharged from bankruptcy. As all bankruptcy-related and Internal Revenue Service liabilities were settled without material modification of amounts accrued in the 1986 consolidated financial statements, we are now able to express an opinion on those statements.

In our opinion, based on our audits and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flanigan's Enterprises, Inc. and subsidiaries as of October 3, 1987, and October 1, 1988, and the results of their operations and their cash flows for each of the three years in the period ended October 1, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 12 to the consolidated financial statements, CIC Investors #70 Ltd. and the Company as general partner are defendants in several lawsuits which indicate claims for substantial amounts that are not covered by insurance. As the ultimate outcome of the litigation cannot presently be determined, no provision for possible liability has been made in the accompanying consolidated financial statements. A significant unfavorable judgment or settlement against the Partnership or the Company as general partner could result in the inability of the Partnership or the Company to continue its operations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements and schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.
Miami, Florida
December 22, 1988

J.W. MAYS, INC., JULY 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of J.W. MAYS, INC.:

We have audited the accompanying balance sheets of J.W. Mays, Inc. and subsidiaries as of July 31, 1988 and 1987, and the related statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

We have previously examined the financial statements as of July 31, 1987 and 1986, and for the years then ended, and expressed a qualified opinion because the Company did not attain profitable operations exclusive of non-recurring income items. Our report for these years did, however, refer to the value of the Company's underlying assets. The Company and its subsidiaries again did not attain profitable operations for the year ended July 31, 1988. As discussed in the section of this report entitled "Liquidity and Capital Resources," the nature of the Company's operations is changing to more fully utilize the value of its real estate holdings. The increase in rental income as reflected in Note 6 to the Financial Statements and the agreement to sell the real estate utilized by one of its stores, as discussed in Note 11(b) to the Financial Statements under the heading "Subsequent Events" are indicative of this trend. Accordingly, in view of the changing nature of the operations of the Company, our present opinion on the July 31, 1987, financial statements as presented herein is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of J.W. Mays, Inc. and subsidiaries as at July 31, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

LIPSKY, GOODKIN & CO., P.C.
October 21, 1988

ROCKY MOUNTAIN MINERALS, INC., OCTOBER 31, 1988

Report of Independent Certified Public Accountants

The Board of Directors
Rocky Mountain Minerals, Inc.:

We have audited the balance sheets of Rocky Mountain Minerals, Inc. (a development stage company) as of October 31, 1987 and 1988, and the related statements of operations, stockholders' equity, and cash flows for the three years ended October 31, 1988, and for the period from inception (May 19, 1978) to October 31, 1988, and supporting schedules (Schedules V, VI, and IX) for the three years ended October 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The period from inception through October 31, 1981, was audited by other auditors whose report dated December 30, 1981, expressed an unqualified opinion on those statements prior to restatement, and our opinion, insofar as it relates to the period from inception through October 31, 1981, is based solely on the report of the other auditors.

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

In our report dated December 17, 1987, our opinion on the 1987 financial statements was qualified subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities been known. As explained in Note 13, the Company consummated a stock purchase agreement on April 22, 1988, thereby providing additional working capital. Accordingly, our present opinion on the 1987 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Rocky Mountain Minerals, Inc. as of October 31, 1987 and 1988, and the results of its operations and its cash flows for the three years ended October 31, 1988, and cumulative amounts from inception to October 31, 1988, in conformity with generally accepted accounting principles. Further, in our opinion, the aforementioned 1986, 1987, and 1988 schedules present fairly the information required to be set forth therein.

December 15, 1988
Denver, Colorado
CAUSEY DEMGEN & MOORE

SPEIZMAN INDUSTRIES, INC., JULY 2, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders
Speizman Industries, Inc.:

We have audited the accompanying balance sheets of Speizman Industries, Inc. and subsidiaries as of July 2, 1988, and June 27, 1987, and the related consolidated statements of operations, retained earnings (deficit), and cash flows for each of the three fiscal years in the period ended July 2, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our report dated October 19, 1987, relating to the financial statements for the years ended June 27, 1987, and June 28, 1986, our opinion was qualified as being subject to possible adjustments relating to the recoverability and reclassification of recorded asset amounts and the amounts and classification of liabilities. The Company has operated at a profit during the last two years and modified certain indebtedness, as described in Note 4, to provide more working capital for operations. Accordingly, our present opinion on the 1987 and 1986 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Speizman Industries, Inc. and subsidiaries as of July 2, 1988, and June 27, 1987, and the results of its operations and its cash flows for each of the three fiscal years in the period ended July 2, 1988, in conformity with generally accepted accounting principles.

BDO Seidman
Charlotte, North Carolina
September 28, 1988

VII

UNCERTAINTY ABOUT FUTURE EVENTS (NOT CAUSED BY A SCOPE LIMITATION)

An uncertainty may exist about the effect on the financial statements of the outcome of future events other than those involving an uncertainty about whether the entity will continue as a going concern. SAS No. 58 requires an auditor to consider disclosing such an uncertainty in an explanatory paragraph. The decision to add such a paragraph is required to be based on the reasonably possible amount of loss and the likelihood of occurrence of loss. If such a paragraph is added, it is required to describe the matter giving rise to the uncertainty and indicate that its outcome cannot presently be determined.

Thirty-one examples of auditors' reports that contain one or more such explanatory paragraphs are presented below. The examples are classified according to whether the report refers to one type of uncertainty or to two or more types of uncertainties. The examples referring to one type of uncertainty are further classified according to the nature of the uncertainty. (Some of the examples contain additional departures from the standard report illustrated in other chapters.)

LAWSUIT

CERMETEK MICROELECTRONICS, INC., JUNE 30, 1988

Independent Auditors' Report

To the Shareholders and Board of Directors of Cermetek Microelectronics, Inc.:

We have audited the accompanying consolidated balance sheets of Cermetek Microelectronics, Inc. and its subsidiaries as of June 30, 1988 and 1987, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for each of the three years in the period ended June 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at June 30, 1988 and 1987, and the results of their operations and the changes in their financial position for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the financial statements, the Company is involved in certain litigation. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any loss that may result upon resolution of these matters has been made in the accompanying financial statements.

DELOITTE HASKINS & SELLS
San Jose, California
August 12, 1988

GAMING AND TECHNOLOGY, INC., JUNE 30, 1988

Independent Auditors' Report

Gaming and Technology, Inc.:

We have audited the accompanying consolidated financial statements of Gaming and Technology, Inc. and its subsidiaries as of June 30, 1988, and for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such 1988 consolidated financial statements present fairly, in all material respects, the financial position of Gaming and Technology, Inc. and its subsidiaries at June 30, 1988, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, effective July 1, 1987, the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 96.

As discussed in Note 8 to the consolidated financial statements, the Company is a defendant in litigation relating to alleged claims concerning the transfer of rights to certain patents under an agreement in settlement of prior litigation. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for loss, if any, that may result from resolution of this matter has been made in the accompanying 1988 consolidated financial statements.

Deloitte Haskins & Sells
Las Vegas, Nevada
September 23, 1988

HOME SAVINGS & LOAN ASSOCIATION, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

To the Board of Directors and Shareholders of Home Savings and Loan Association, Inc.:

We have audited the consolidated statements of financial condition of Home Savings and Loan Association, Inc. and subsidiary as of September 30, 1988 and 1987, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Home Savings & Loan Association, Inc. and subsidiary at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 16 to the consolidated financial statements, the Company is involved in litigation which has arisen from its purchase of certain bonds collateralized by manufactured home loans. The Company is pursuing collection of the bonds and other sums in connection with certain alleged misrepresentations and violations of securities laws in connection with the sale of the bonds. These matters are still in the discovery phases and the outcome of the litigation and the ultimate collectibility of these bonds cannot be presently determined.

/s/ DELOITTE HASKINS & SELLS
Raleigh, N.C.
November 3, 1988

MAGNETIC TECHNOLOGIES CORPORATION, JULY 31, 1988

Report of Independent Accountants

To the Stockholders and Board of Directors of Magnetic Technologies Corporation:

In our opinion, the accompanying balance sheet and the related statements of operations, changes in stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Magnetic Technologies Corporation at July 31, 1988, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 13 to the financial statements, the company is a defendant in various lawsuits alleging violation of certain securities laws. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

/s/ PRICE WATERHOUSE
Rochester, New York
October 7, 1988

PAR PHARMACEUTICAL, INC., OCTOBER 1, 1988

Report of Independent Certified Public Accountants

Board of Directors and Shareholders
Par Pharmaceutical, Inc.
Spring Valley, New York:

We have audited the accompanying consolidated balance sheets of Par Pharmaceutical, Inc. and subsidiaries as at October 1, 1988, and October 3, 1987, and the related consolidated statements of income and retained earnings, and cash flows for each of the years in the three-year period ended October 1, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Par Pharmaceutical, Inc. and subsidiaries at October 1, 1988, and October 3, 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended October 1, 1988, in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, the Company is the subject of an ongoing Grand Jury investigation relating to allegations of various improprieties in connection with the FDA's Division of Generic Drugs. The ultimate outcome of the matter and its impact on the Company cannot presently be determined.

RICHARD A. EISNER & COMPANY
New York, New York
November 16, 1988
With respect to "Subsequent Events—Settlement of Quad Litigation," January 4, 1989

PEOPLES ENERGY CORPORATION, SEPTEMBER 30, 1988

Report of Independent Public Accountants

To the Stockholders of Peoples Energy Corporation:

We have audited the accompanying consolidated balance sheets and consolidated capitalization statements of Peoples Energy Corporation (an Illinois corporation) and subsidiary companies as of September 30, 1988 and 1987, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Energy Corporation and subsidiary companies at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in "Synthetic Natural Gas Plant" in the notes to the consolidated financial statements, on March 30, 1988, an order was issued by the Illinois Commerce Commission concluding that a subsidiary of the Company had properly recovered under its Gas Charge provisions of its rate schedule certain demand charges during the period of fiscal 1982 through 1986. The Commission's decision has been appealed by certain intervenors to the Illinois Appellate Court. While the subsidiary cannot predict the Appellate Court's decision, it believes that the evidence in the record fully supports the Commission's decision and that accordingly, the Commission's decision should be upheld on appeal.

As discussed in "Pension Plans and Post-Retirement Benefits" in the notes to the consolidated financial statements, the method of accounting for pensions was changed in fiscal year 1987.

ARTHUR ANDERSEN & CO.
Chicago, Illinois
November 2, 1988

VANZETTI SYSTEMS, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

The Board of Directors and Stockholders
Vanzetti Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Vanzetti Systems, Inc. and subsidiaries as of September 30, 1988 and 1987, and the related statements of income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanzetti Systems, Inc. and subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, the Company is a defendant in several lawsuits alleging breach of warranties and claiming specific and punitive damages. The Company has filed counteractions. Also as discussed in Note 14 to the consolidated financial statements, a judgment has been received against the Company in one action, and the Company has appealed this decision. A decision on the Company's appeal has not been received. The ultimate outcome of this litigation cannot presently be determined. However, the Company has recorded the amount of the liability and the loss that will result from the present decision against it. Preliminary hearings and discovery proceedings on the other two actions are in progress. The ultimate outcome of this litigation cannot presently be determined. Accordingly, no liability or related loss that may result upon adjudication has been recognized in the accompanying financial statements for the two actions that are still pending.

/s/ PEAT MARWICK MAIN & Co.
Boston, Massachusetts
December 21, 1988

WASHINGTON ENERGY COMPANY, SEPTEMBER 30, 1988

Independent Auditors' Report

To the Shareholders and Board of Directors of Washington Energy Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Washington Energy Company (a Washington corporation) and subsidiaries as of September

30, 1988 and 1987, and the related consolidated statements of income, shareholders' earnings reinvested in the business, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Energy Company and subsidiaries as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, the former holders of the Company's Series D and Series E preferred stock have filed suit to negate the 1987 repurchase of the $20 million aggregate par value of this stock. The ultimate outcome of this matter cannot be predicted at this time.

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for income taxes in 1988, and as discussed in Note 1 to the financial statements, the Company changed its method of accounting for unbilled revenues in 1987.

ARTHUR ANDERSEN & CO.
Seattle, Washington
November 1, 1988

RECOVERY OF ASSET COST

ARMCO INC., DECEMBER 31, 1988

Independent Auditors' Report

Armco, Its Shareholders, and Directors:

We have audited the statement of consolidated financial position of Armco Inc. and consolidated subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income and shareholders' equity for each of the three years in the period ended December 31, 1988, of cash flows for the year ended December 31, 1988, and of changes in financial position for the years ended December 31, 1987 and 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Armco Inc. and consolidated subsidiaries at December 31, 1988 and 1987, and the results of their operations for each of the three years in the period ended December 31, 1988, their cash flows for the year ended December 31, 1988, and their changes in financial position for the years ended December 31, 1987 and 1986, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Company's ability to recover its investment in and advances to Armco Financial Services Group is dependent upon certain future events.

The possible effects of this uncertainty cannot presently be determined. Accordingly, no provision for any loss that may result from the resolution of this matter has been made in the accompanying financial statements.

As discussed in Notes 1 and 3 to the financial statements, in 1988 the Company changed (a) its method of accounting for inventory to include in inventory costs certain overhead costs previously charged directly to expense, (b) its application of generally accepted accounting principles to present a statement of cash flows in place of a statement of changes in financial position, and (c) its method of accounting for income taxes.

/s/ DELOITTE HASKINS & SELLS
February 9, 1989

BINDLEY WESTERN INDUSTRIES, INC., DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Bindley Western Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Bindley Western Industries, Inc. and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 12 to the financial statements, one of the Company's largest warehouse customers filed a petition for reorganization under Chapter 11 of the Federal Bankruptcy Code in July 1988. The bankruptcy proceedings are in the early stages, and the final outcome is uncertain. Accordingly, no provision for amounts, if any, that may ultimately prove uncollectible has been made in the accompanying financial statements.

PRICE WATERHOUSE
Indianapolis, Indiana

DDI PHARMACEUTICALS, INC., DECEMBER 31, 1988

Report of Independent Auditors

DDI Pharmaceuticals, Inc.:

We have audited the accompanying balance sheets of DDI Pharmaceuticals, Inc. as of December 31, 1988 and 1987, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the management of DDI Pharmaceuticals, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of DDI Pharmaceuticals, Inc. at December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the ultimate collectibility of a note receivable cannot presently be determined, and accordingly, no provision for any loss that may result upon resolution of this uncertainty has been made in the accompanying financial statements.

DELOITTE HASKINS & SELLS
San Jose, California
January 31, 1989

MASSMUTUAL CORPORATE INVESTORS, DECEMBER 31, 1988

Report of Independent Accountants

To the Board of Trustees and Shareholders of MassMutual Corporate Investors:

We have audited the accompanying statement of assets and liabilities of MassMutual Corporate Investors as of December 31, 1988 and 1987, including the schedule of investments as of December 31, 1988, and the related statements of operations and changes in net assets for the years ended December 31, 1988 and 1987, and cash flows for the year ended December 31, 1988, and selected supplementary information for each of the five fiscal years in the period ended December 31, 1988. These financial statements and selected supplementary information are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements and selected supplementary information referred to in the preceding paragraph present fairly, in all material respects, the financial position of MassMutual Corporate Investors as of December 31, 1988 and 1987, and the results of its operations and changes in net assets for the years ended December 31, 1988 and 1987, and cash flows for the year ended December 31, 1988, and selected supplementary information for each of the five fiscal years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As explained in Note 2A, the financial statements include securities valued at $128,865,633 (101% of net assets) as of December 31, 1988 ($123,867,644 at December 31, 1987), whose values have been estimated by the Board of Trustees in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Trustees in arriving at their estimate of value of such securities and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

COOPERS & LYBRAND
Springfield, Massachusetts
January 23, 1989

PANHANDLE EASTERN CORPORATION, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors
Panhandle Eastern Corporation:

We have audited the accompanying consolidated balance sheet of Panhandle Eastern Corporation and Subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income (loss), other common stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Panhandle Eastern Corporation and Subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with generally accepted accounting principles.

Several of the Company's subsidiaries are engaged in a project to import liquefied natural gas from Algeria. The investment in the terminal facilities and tankers amounted to $616,365,000 and $599,953,000 at December 31, 1988 and 1987, respectively. As more fully described in Note 15, the subsidiaries' ability to recover their aggregate investment is not presently determinable.

/s/ PEAT MARWICK MAIN & CO
Houston, Texas
February 7, 1989

PUBLIC SERVICE COMPANY OF COLORADO, DECEMBER 31, 1988

Report of Certified Public Accountants

The Board of Directors and Shareholders
Public Service Company of Colorado:

We have audited the accompanying consolidated balance sheets of Public Service Company of Colorado and subsidiaries at December 31, 1988 and 1987, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Public Service Company of Colorado and subsidiaries at December 31, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, whether the Company will realize its remaining investment in the Fort St. Vrain Nuclear Generating Station (approximately $65.7 million at December 31, 1988) and whether the Company will be able to avoid future operating losses associated with unrecoverable operating and capital expenditures are dependent on future events, including sustaining operations at levels significantly greater than in the past, achieving and maintaining a cost-effective relationship between expenses and revenues from Fort St. Vrain, and satisfactorily resolving the remaining alternatives regarding Fort St. Vrain. The eventual outcome of these matters cannot be determined at this time.

As discussed in Note 1 to the financial statements, the Company changed its method of revenue recognition in 1987.

ARTHUR YOUNG & COMPANY
Denver, Colorado
February 10, 1989

TELECOM CORPORATION, DECEMBER 31, 1988

Report of Independent Accountants

To The Shareholders and Board of Directors, TeleCom Corporation:

We have audited the consolidated financial statements and the financial statement schedules of TeleCom Corporation and Subsidiaries listed in the index on page F-1 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TeleCom Corporation and Subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As explained in Note 9, the consolidated financial statements include investments in closely held companies of $1,300,000 (18% of net assets), whose values have been estimated by management in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at their estimate of value of such investments and have inspected the underlying documentation, and in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

COOPERS & LYBRAND
Dallas, Texas
March 17, 1989

ZAPATA CORPORATION, SEPTEMBER 30, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors, Zapata Corporation:

We have audited the consolidated balance sheet of Zapata Corporation (a Delaware corporation) and subsidiary companies as of September 30, 1988 and 1987, and the related consolidated income statement, statement of cash flows and reinvested earnings (deficit), and capital in excess of par value for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zapata Corporation and subsidiary companies as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

The offshore drilling industry continues to be burdened by reduced demand for services and a surplus of drilling equipment. As a result of these economic conditions, the Company's drilling division has incurred significant operating losses. The Company projects that day rates will increase in future years to sufficient levels to recover the investment in its drilling rigs, although due to the unstable industry environment, it is uncertain if these projections will be met. The accompanying financial statements do not include any adjustments relating to the recoverability of asset net book values that might be necessary should the Company not be able to generate sufficient income to recover the recorded cost of its drilling rigs.

ARTHUR ANDERSEN & CO.
Houston, Texas
November 30, 1988

ESTIMATED LIABILITIES

EAGLE-PICHER INDUSTRIES, INC., NOVEMBER 30, 1988

Independent Auditors' Report

The Board of Directors
Eagle-Picher Industries, Inc.:

We have audited the accompanying consolidated balance sheet of Eagle-Picher Industries, Inc. and subsidiaries as of November 30, 1988 and 1987, and the related consolidated statements of income (loss), shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended November 30, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eagle-Picher Industries, Inc. and subsidiaries as of

November 30, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note K to the consolidated financial statements, the accompanying consolidated financial statements include estimated reserves and amounts due from insurance carriers related to claims associated with the Company's sale of asbestos products. We believe the Company determined these estimates in a reasonable manner. Management's plans to fund these liabilities are also discussed in Note K. The final resolution of actual amounts, however, which may be more or less than the amounts provided, as well as timing and funding of payments are dependent upon future events, the outcome of which are not fully determinable at the present time.

Peat Marwick Main & Co.
Cincinnati, Ohio
January 20, 1989

COVENANT DEFAULT

EAGLE TELEPHONICS, INC., OCTOBER 31, 1988

Independent Auditors' Report

Board of Directors and Stockholders
Eagle Telephonics, Inc.
Hauppauge, New York:

We have audited the accompanying consolidated balance sheets of Eagle Telephonics, Inc. and Subsidiaries as of October 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 1988, and the schedules listed in the index at item 14(a)(2). These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eagle Telephonics, Inc. and Subsidiaries as of October 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1988, in conformity with generally accepted accounting principles, and the schedules listed in the index at item 14(a)(2) present fairly, when read in conjunction with the related consolidated statements, the information set forth therein.

As discussed in Note 6, at October 31, 1988, the Company was in default of most of the financial covenants contained in its revolving credit loan agreements. The banks have provided waivers of these defaults and are currently negotiating the terms of a new financing arrangement that will expire after October 31, 1989. Management of the Company believes that it will be successful in these negotiations. The accompanying financial statements do not include any adjustments which may be necessary in the event that these negotiations are not successful.

HOLTZ RUBENSTEIN & CO.
Melville, New York
February 10, 1989

KEYSTONE CAMERA PRODUCTS CORPORATION, DECEMBER 31, 1988

Report of Independent Certified Public Accountants

Keystone Camera Products Corporation
Clifton, New Jersey:

We have audited the accompanying consolidated balance sheets of Keystone Camera Products Corporation and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keystone Camera Products Corporation and subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 2(a), the Company was in violation of certain covenants of its loan agreements, for which waivers were obtained through April 30, 1989. Management's plans, which it believes will effectively deal with these conditions, are described in Note 14. The accompanying financial statements have been prepared assuming that the Company's principal lender will continue to grant waivers and make loans up to the limits of its financing agreement. However, based on the aforementioned conditions, there is no assurance that management's plans will be achieved and that such assumption will be realized. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BDO SEIDMAN
New York, New York
April 3, 1989

OTHER TYPES OF UNCERTAINTIES

BARRISTER INFORMATION SYSTEMS CORPORATION, MARCH 31, 1988

Independent Auditor's Report

The Board of Directors and Shareholders
Barrister Information Systems Corporation:

We have audited the accompanying consolidated balance sheets of Barrister Information Systems Corporation and subsidiaries as of March 31, 1988 and 1987, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barrister Information Systems Corporation and subsidiaries at March 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1988, in conformity with generally accepted accounting principles.

As discussed in notes 5 and 2, respectively, to the consolidated financial statements, the company changed its methods of accounting for pension costs in 1988 and software production costs in 1987.

As discussed in note 8 to the consolidated financial statements, the company has received a Proposed Statement of Audit Adjustment for additional sales and use taxes plus interest and penalties, which the company is contesting. The range of ultimate liability cannot presently be determined. Accordingly, no provision for a liability that may result has been made in the accompanying financial statements.

/s/ PEAT MARWICK MAIN & CO.
Buffalo, New York
June 17, 1988

LOUISVILLE GAS AND ELECTRIC COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To The Stockholders of Louisville Gas and Electric Company:

We have audited the consolidated balance sheets of Louisville Gas and Electric Company (a Kentucky corporation) and subsidiary as of December 31, 1988 and 1987, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company and subsidiary as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 2, the 1988 financial statements include electric operating revenues associated with Trimble County Unit 1, collected subject to refund, pending the outcome of future hearings to be held by the Kentucky Public Service Commission (Commission). The outcome of this matter is uncertain at this time. As discussed in Note 10, the recovery of 25% of the total cost of Trimble County Unit 1 is dependent upon future Commission hearings to determine how such costs will be handled for rate-making purposes. The ultimate recovery of 25% of the total cost of Trimble County Unit 1 is uncertain at this time. Immediate loss recognition will be required if either a disallowance by the Commission of newly completed plant costs or a loss resulting from other Commission actions becomes probable and estimable.

Arthur Andersen & Co.
Louisville, Kentucky
January 23, 1989

SCHWAB SAFE CO., INC., DECEMBER 31, 1988

Independent Auditor's Report

To the Board of Directors and Shareholders of Schwab Safe Co., Inc.:

We have audited the accompanying balance sheet of Schwab Safe Co., Inc. as of December 31, 1988 and 1987, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Schwab Safe Co., Inc. as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, effective January 1, 1988, the Company changed its method of accounting for income taxes.

As discussed in Note 11 to the financial statements, the Company could be liable to NMH Corp. for reimbursement of certain expenses incurred in connection with the pending acquisition and merger of the Company by NMH Corp.

GEO. S. OLIVE & CO.
Indianapolis, Indiana
February 14, 1989, except for Note 12, as to which the date is February 28, 1989, and March 1, 1989

SOUTHERN CALIFORNIA WATER COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Southern California Water Company:

We have audited the balance sheets and statements of capitalization of Southern California Water Company (a California corporation) as of December 31, 1988 and 1987, and the related statements of income, earnings reinvested in the business, additional paid-in capital, and cash flows (as restated, see Note 1) for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern California Water Company as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, the Internal Revenue Service has asserted tax deficiencies against the Company for the years 1977–1980. The Company is unable to predict the ultimate outcome of this matter. Also, as explained in Note 1 to the financial statements, effective January 1, 1987, the Company changed to the unbilled method of accounting for revenues.

ARTHUR ANDERSEN & CO.
Los Angeles, California
February 17, 1989

TESORO PETROLEUM CORPORATION, SEPTEMBER 30, 1988

Independent Auditor's Report

Board of Directors and Stockholders
Tesoro Petroleum Corporation:

We have audited the accompanying consolidated balance sheets of Tesoro Petroleum Corporation and subsidiaries (the Company) as of September 30, 1988 and 1987, and the related statements of operations, common stock and other stockholders' equity and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tesoro Petroleum Corporation and subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note I to the financial statements, the Company has two contracts with the State of Alaska (State) for the purchase of State royalty crude oil for its refining operations. Under the contract terms, the Company may be required to pay the State additional amounts for the crude oil if the State prevails in continuing litigation (to which the Company is not a party) between the State and producers of the crude oil. The State has indicated it will pursue new legal theories in this litigation against the producers which, if successful, could result in material liabilities under the contracts with the State which have not been accrued by the Company. The Company contends that its liability under the contract terms should not be increased by the final resolution of these new legal theories. The Company, however, is unable to predict the ultimate outcome of its contractual dispute with the State.

/s/ TOUCHE ROSS & CO.
San Antonio, Texas
November 18, 1988

MICHIGAN GENERAL CORPORATION, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Michigan General Corporation:

We have audited the accompanying consolidated balance sheets of Michigan General Corporation and subsidiaries (a Delaware corporation, hereinafter referred to as the "Company") as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for the periods ended December 31, 1988, May 31, 1988, and December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Michigan General Corporation and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for the periods ended December 31, 1988, May 31, 1988, and December 31, 1987, in conformity with generally accepted accounting principles.

As more fully described in Note 2 to the consolidated financial statements, on or about April 22, 1987, Michigan General Corporation (and its primary operating subsidiaries exclusive of Savannah Wholesale Company) filed voluntary petitions under Chapter 11 of the Federal Bankruptcy Code (the "Code"). On April 1, 1988, the Court, the Company's stockholders, and the Company's creditors confirmed the Company's Plan of Reorganization (the "Plan"). The Company is required to settle prepetition liabilities through distribution of a combination of cash, debt securities, and equity securities.

The accompanying 1988 balance sheet reflects the debt and equity securities issued and to be subsequently issued in satisfaction of prepetition claims that the Company will not contest and the estimated settlement amounts for those claims that will be contested; however, because the Bankruptcy Court settlement process for disputed claims is not complete, management is uncertain as to the total ultimate liabilities which may be allowed by the Court and subject to settlement and, consequently, the type and amount of securities which will be issued. Management believes that the ultimate resolution of the remaining unsettled claims will not have a material adverse effect on the financial position or operations of the Company.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included as Supplemental Consolidating Information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. This information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

ARTHUR ANDERSEN & CO.
Dallas, Texas
March 28, 1989

NOBEL INSURANCE LIMITED, DECEMBER 31, 1988

Report of Chartered Accountants

The Board of Directors and Shareholders
Nobel Insurance Limited:

We have audited the accompanying consolidated financial statements of Nobel Insurance Limited as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nobel Insurance Limited as at December 31, 1988 and 1987, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 2, the Company has experienced a rapid premium growth since 1984, particularly for the commercial general liability and excess liability lines of business. Because of the length of time required for the ultimate liability to be determined for these lines, the Company has limited historical data upon which to estimate the ultimate liability. Furthermore, during this period the Company has increased the amount of insurance risk retained. As a result of these factors, the ultimate liability for claims and claims expenses is not estimable as a single amount at this time. The Company has reflected the low estimate of the range of reasonable estimates of the reserve for claims and claims expenses in the accompanying financial statements. Accordingly, the ultimate liability for claims and claims expenses may be more than that provided for in the consolidated financial statements and the applicable financial statement schedules (Schedules III, V, and X).

Peat Marwick
April 21, 1989
Hamilton, Bermuda

TWO OR MORE KINDS OF UNCERTAINTIES

ALAMCO, INC., DECEMBER 31, 1988

Independent Auditors' Report

The Directors and Stockholders
Alamco, Inc.:

We have audited the accompanying consolidated balance sheets of Alamco, Inc. and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. We have also audited the financial statement schedules listed in the index in Item 14(a)(1) and (2) of Part IV of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based upon our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alamco, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. In addition, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

As discussed in Notes 2 and 15 to the consolidated financial statements, the Company is a guarantor of debt relating to certain partnerships and joint ventures aggregating approximately $3.3 million, and the Company is involved in litigation which, if resolved unfavorably, could have a material adverse affect on the Company's results of operations and financial position. The Company cannot presently determine the ultimate outcome of these uncertainties.

COOPERS & LYBRAND
Pittsburgh, Pennsylvania
March 10, 1989

COOPER LIFE SCIENCES, INC., OCTOBER 31, 1988

Independent Auditors' Report

The Board of Directors
Cooper Life Sciences, Inc.:

We have audited the accompanying consolidated balance sheets of Cooper Life Sciences, Inc. and subsidiaries (the Company) as of October 31, 1988 and 1987, and the related consolidated statements of operations and stockholders' equity for each of the years in the three-year period ended October 31, 1988, the consolidated statement of cash flows for the year ended October 31, 1988, and the consolidated statements of changes in financial position for the years ended October 31, 1987 and 1986. In connection with our audits, we also have audited the accompanying financial statement schedules. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of Cooper Life Sciences, Inc. and its subsidiaries at October 31, 1988 and 1987, and the results of their operations for each of the years in the three-year period ended October 31, 1988, their cash flows for the year ended October 31, 1988, and the changes in their financial position for the years ended October 31, 1987 and 1986, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

At October 31, 1988, the Company's principal asset consisted of its net investment in unregistered shares of Senior Exchangeable Redeemable Preferred Stock issued by The Cooper Companies, Inc. (the TCC Preferred Stock) which it purchased from Cooper Development Company (CDC) for $77.32 per share (see Note 5 for relationship between CDC and the Company). The Company is indemnified by CDC through June 30, 1989, for any decline in the value of the TCC Preferred Stock below its purchase price. After June 30, 1989, any subsequent decline in the value of the TCC Preferred Stock would result in a loss to the Company. As discussed in Note 2 to the consolidated financial statements, there are significant uncertainties relating to the amount that the Company may ultimately be able to recover from its investment in the TCC Preferred Stock. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 10 to the consolidated financial statements, the Company is one of several defendants in a lawsuit filed by a group of current or former stockholders of the Company purportedly on behalf of a class of stockholders or former stockholders and, derivatively, on behalf of the Company. The complaint alleges violations of Federal securities laws and other violations of state and Federal laws. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 11 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," in 1988.

PEAT MARWICK MAIN & CO.
San Francisco, California
February 13, 1989, except as to the fourth paragraph of Note 10, the last paragraph of Note 14, and the fourth paragraph above, which are as of March 10, 1989

MIDDLE SOUTH UTILITIES, INC., DECEMBER 31, 1988

Independent Auditors' Report

The Stockholders and the Board of Directors of Middle South Utilities, Inc.:

We have audited the consolidated balance sheets of Middle South Utilities, Inc. as of December 31, 1988 and 1987, and the related statements of consolidated income, of retained earnings and paid-in capital, and of cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the above-mentioned consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 8 of the Notes to Consolidated Financial Statements, there are several uncertainties facing the Company and its subsidiaries. These uncertainties involve the recoverability of a suspended construction project, the potential adverse impact stemming from a regulatory audit if certain findings are ultimately sustained, and the potential obligation of one of the System operating companies to purchase a portion of its outstanding bonds which, if required, could render that company insolvent as there is no assurance that it would have sufficient available cash resources or financing capabilities to meet this obligation. The ultimate outcome of these uncertainties cannot presently be determined. Accordingly, no provision for any loss that may result upon resolution of these matters has been made in the accompanying consolidated financial statements.

Deloitte Haskins & Sells
New Orleans, Louisiana
March 3, 1989

PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Pacific Gas and Electric Company:

We have audited the accompanying consolidated balance sheet and the statement of consolidated capitalization of Pacific Gas and Electric Company (a California corporation) and subsidiaries as of December 31, 1988 and 1987, and the related statements of consolidated income, cash flows, common stock equity and preferred stock, and the schedule of consolidated segment information for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements and schedule of consolidated segment information referred to above present fairly, in all material respects, the financial position of Pacific Gas and Electric Company and subsidiaries as of December 31, 1988 and 1987, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

Applications for rehearing have been filed challenging the California Public Utilities Commission's approval of the Diablo Canyon rate case settlement (see Note 2). A purported security holders' class action complaint seeking unspecified damages was filed against the Company alleging failure to disclose material information concerning recovery of its investment in Diablo Canyon (see Note 10). The Company is unable to determine the ultimate outcome of these matters or whether they would have a significant adverse impact on its financial position or results of operations.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1987, the Company changed its method of recognizing revenues to accrue for services provided but unbilled.

ARTHUR ANDERSEN & CO.
San Francisco, California
February 2, 1989

SOUTHERN COMPANY, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Board of Directors and Stockholders of The Southern Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of The Southern Company (a Delaware corporation) and subsidiary companies as of December 31, 1988 and 1987, and the related consolidated statements of income, earnings retained in the business, amount paid in for common stock in excess of par value, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements (pages 34–55) referred to above present fairly, in all material respects, the financial position of The Southern Company and subsidiary companies as of December 31, 1988 and 1987, and the results of their operations and their cash flows for the periods stated, in conformity with generally accepted accounting principles.

As more fully discussed in Notes 2, 3, and 8 to the financial statements, uncertainties exist with respect to the recoverability of Georgia Power's investments in the Plant Vogtle nuclear facility and the Rocky Mountain hydroelectric project, the recoverability of certain fuel costs related to Plant Scherer, the resolution of the Internal Revenue Service investigation, and the outcome of a stockholder's suit pending against The Southern Company. The outcome of these uncertainties cannot be determined until the related regulatory and legal proceedings are concluded.

ARTHUR ANDERSEN & CO.
Atlanta, Georgia
March 3, 1989

VIII

SUBSTANTIAL DOUBT ABOUT THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

SAS No. 58 distinguishes uncertainties about the outcome of future events that provide substantial doubt about the entity's ability to continue as a going concern from other uncertainties. Footnote 10 in SAS No. 58 refers to SAS No. 59, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," which provides guidance on evaluating whether there is substantial doubt about the entity's ability to continue as a going concern. If there is substantial doubt, SAS No. 59 requires the auditor to include an explanatory paragraph in his or her report indicating that conclusion. The auditor is permitted to disclaim an opinion on financial statements containing such an explanatory paragraph.

Twenty-one examples of auditor's reports that contain such explanatory paragraphs are presented below. The examples are classified according to whether or not the report contains a disclaimer of opinion. The examples that do not contain a disclaimer are further classified according to whether or not the report refers to additional uncertainties. (Some of the examples contain additional departures from the standard report illustrated in other chapters.)

NO DISCLAIMER OF OPINION—NO OTHER UNCERTAINTIES DISCLOSED

CONTINENTAL FEDERAL SAVINGS AND LOAN ASSOCIATION, SEPTEMBER 30, 1988

Auditors' Report

The Board of Directors
Continental Federal Savings and Loan Association:

We have audited the accompanying consolidated balance sheets of Continental Federal Savings and Loan Association (Association) as of September 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Continental Federal Savings and Loan Association at September 30, 1988 and 1987, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Association will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Association has suffered recurring losses from operations and has a net capital deficiency. In addition, at September 30, 1988, the Association's regulatory net worth was approximately $24,959,000 less than the net worth required by the Federal Home Loan Bank Board (FHLBB) and the Federal Savings and Loan Insurance Corporation (FSLIC), and in November 1988, the Association entered into a supervisory agreement with the FHLBB which limits certain activities of the Association without prior FHLBB approval and provides for the Association to meet certain other requirements, including consideration of combinations or recapitalizations which might be proposed by the FHLBB. These matters raise substantial doubt about the Association's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ARTHUR YOUNG & COMPANY
Oklahoma City, Oklahoma
December 3, 1988

DATAVISION, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

To the Shareholders and Board of Directors of Datavision, Inc.:

We have audited the consolidated financial statements and the financial statement schedules of Datavision, Inc. as listed in the accompanying index to financial statements and financial statement schedules (page 22 of this Form 10-K). We have also audited the pro forma adjustments reflecting the transactions described in Note 13 and the application of these adjustments to the historical amounts in the assembly of the accompanying Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statement of Stockholders' Equity of Datavision, Inc. at September 30, 1988. Such pro forma adjustments reflect the transactions described in Note 13 as if they had occurred on September 30, 1988. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements and financial statement schedules referred to above present fairly, in all material respects, the consolidated financial position of Datavision, Inc. at September 30, 1988 and 1987, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles. Additionally, in our opinion, since the transactions described in Note 13 have been completed subsequent to September 30, 1988, there is a reasonable basis for presenting the significant effects of such transactions as if they had occurred on September 30, 1988. The related pro forma adjustments give appropriate effect to these transactions and were properly applied in the Pro Forma Consolidated Balance Sheet and the Pro Forma Consolidated Statement of Stockholders' Equity at September 30, 1988.

The accompanying financial statements and financial statement schedules have been prepared assuming the Company will continue as a going concern. As discussed in Note la to the financial statements, the Company has incurred recurring net losses, has a deficit at September 30, 1988, and is in default under certain financial covenants of its term loan with its principal bank. The Company is currently negotiating with its principal bank and seeking alternative financing to enable it to meet its existing and future obligations as they become due and to modify and/or waive the provisions of its loan agreement under which it is in default. The Company's attainment of profitable operations and additional financing, as well as the continued forbearance of its lender, cannot be determined at this time. In our opinion, these uncertainties raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Notes 1 and 11. The fiscal 1988 financial statements and financial statement schedules do not include any adjustments that might result from the outcome of these uncertainties.

ARTHUR YOUNG & COMPANY
Fort Lauderdale, Florida
December 19, 1988, except as to Note 13, as to which the date is December 28, 1988

DIGICON INC., JULY 31, 1988

Independent Auditors' Report

Digicon Inc. and Subsidiaries:

We have audited the consolidated balance sheets of Digicon Inc. and subsidiaries (the "Company") as of July 31, 1988 and 1987, and the related statements of consolidated operations, cash flows, and changes in consolidated stockholders' deficit for each of the three years in the period ended July 31, 1988. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 1988, in conformity with generally accepted accounting principles.

Our audits also comprehended the supplemental schedules listed in Item 14 for each of the three years in the period ended July 31, 1988. In our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

The accompanying consolidated financial statements and supplemental schedules have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is in default on approximately $5,707,000 of subordinated indebtedness. If such indebtedness were accelerated, doubt could be raised about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements and supplemental schedules do not include any adjustments that might result from the outcome of this uncertainty.

DELOITTE HASKINS & SELLS
Houston, Texas
October 25, 1988

NORTHWESTERN STATES PORTLAND CEMENT COMPANY, NOVEMBER 30, 1988

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of Northwestern States Portland Cement Company:

We have audited the accompanying balance sheets of Northwestern States Portland Cement Company (an Iowa corporation) as of November 30, 1988 and 1987, and the related statements of operations, retained earnings, and cash flows for each of the three years in the period ended November 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern States Portland Cement Company as of November 30, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 1988, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's Amended and Restated Term and Revolving Credit Agreement contains subjective clauses which provide for acceleration of payment of the revolving credit loans at the bank's discretion. This factor, together with other matters, indicates that the Company may be unable to continue operating in the normal course. Management's belief in regard to these matters is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 4 to the financial statements, the Company changed its method of computing pension cost in 1988.

ARTHUR ANDERSEN & CO.
Minneapolis, Minnesota
December 16, 1988

THT, INC., SEPTEMBER 30, 1988

Report of Independent Public Accountants

To THT, Inc.:

We have audited the accompanying consolidated balance sheets of THT, Inc. (a Delaware corporation) and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, common stockholders' equity (deficit), and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of THT, Inc. and subsidiaries as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Furthermore, also as discussed in Note 2, there is no assurance that the Company will be successful in developing a market for video fax machines and realize its investment in inventory. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules included in Item 14 are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities Exchange Act of 1934 and are not otherwise a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.
Roseland, New Jersey
January 12, 1989

NO DISCLAIMER OF OPINION—OTHER UNCERTAINTIES DISCLOSED

THE AMERICAN SHIP BUILDING COMPANY, SEPTEMBER 30, 1988

Report of Independent Certified Public Accountants

To The American Ship Building Company:

We have audited the accompanying consolidated balance sheets of The American Ship Building Company (a New Jersey Corporation) and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The American Ship Building Company and subsidiaries as of September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, the Company is a defendant in a lawsuit alleging that excess pension plan assets, which reverted to the Company when the plan was terminated, should have been distributed to the plan participants. This litigation is in the early stages of discovery, and the ultimate outcome cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has sustained significant losses in the last two years, and as discussed in Note 9 to the consolidated financial statements, the Company has given notice to its lenders of events which constitute default under its credit agreement. In addition, the Company does not currently have any significant long-term contracts. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ARTHUR ANDERSEN & CO.
Tampa, Florida
December 7, 1988

ATLANTIC PERMANENT SAVINGS BANK, F.S.B., SEPTEMBER 30, 1988

Report of Independent Auditors

Stockholders and Board of Directors
Atlantic Permanent Savings Bank, F.S.B.
Norfolk, Virginia:

We have audited the accompanying consolidated statements of financial condition of Atlantic Permanent Savings Bank, F.S.B. and subsidiaries (Atlantic Permanent) as of September 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of Atlantic Permanent's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlantic Permanent at September 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Atlantic Permanent will continue as a going concern. As more fully described in Note B, Atlantic Permanent has incurred recurring operating losses and has a net capital deficiency. These conditions raise substantial doubt about Atlantic Permanent's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note B. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of Atlantic Permanent to continue as a going concern.

As discussed in Note Q, litigation filed in Dallas, Texas, against Atlantic Permanent involving their participation in an acquisition, development, and construction loan remains pending. At this stage of the proceedings, the ultimate outcome of the litigation cannot be determined and no provision for any liability that may result has been made in the financial statements.

/s/ ERNST & WHINNEY
Norfolk, Virginia
October 29, 1988

THE BETHLEHEM CORPORATION, DECEMBER 31, 1988

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
The Bethlehem Corporation:

We have audited the accompanying consolidated balance sheets of The Bethlehem Corporation and Subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bethlehem Corporation and Subsidiaries as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the financial statements, the Company has suffered losses from operations in 1987 and 1986 and is in default of certain loan agreements. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note D to the financial statements, the Company has certain inventory at December 31, 1988 and 1987, that is in excess of one year old and is reflected in such statements at $788,000. The ultimate recoverability of this inventory is not presently determinable. The Company has not provided an allowance for such inventory.

As discussed in Note O to the financial statements, the Company has an account receivable in litigation at December 31, 1988 and 1987 that is reflected in such statements at $761,310. The ultimate collectibility of this receivable is not presently determinable. The Company has not provided an allowance for such receivable.

We have also examined the financial statement schedules listed in the accompanying index at Item 14(a)(2). In our opinion, these financial statement schedules present fairly, when read in conjunction with the related financial statements, the information required to be set forth therein.

GRANT THORNTON
New York, New York
March 17, 1989

INTELLIGENT BUSINESS COMMUNICATIONS CORP., OCTOBER 31, 1988

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of Intelligent Business Communications Corp. and Subsidiary:

We have audited the consolidated financial statements and the financial statement schedules of Intelligent Business Communications Corp. and subsidiary listed in Item 14(a) of this Form 10(K). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intelligent Business Communications Corp. and Subsidiary as of October 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1988, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Note 14 to the financial statements, the company has become aware of two contingencies relating to the sale and registration of certain of its equity securities. No claims have been asserted. If any claims are asserted, the ultimate outcome of such claims cannot presently be determined.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 15 to the financial statements, the Company has suffered recurring losses from operations and has accumulated a deficit of $10,443,628 from inception which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COOPERS & LYBRAND
Melville, New York
January 17, 1989, except as to the information presented in the first paragraph of Note 13, for which the date is February 9, 1989

PLYMOUTH RUBBER COMPANY, INC., NOVEMBER 26, 1988

Report of Independent Accountants

To the Board of Directors and Stockholders of Plymouth Rubber Company, Inc.:

In our opinion, the financial statements listed in the accompanying index appearing on page 18 present fairly, in all material respects, the financial position of Plymouth Rubber Company, Inc. at November 26, 1988, and November 28, 1987, and the results of its operations and its cash flows for each of the three years in the period ended November 26, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has generated recurring losses from operations and has working capital and net capital deficiencies that raise substantial doubt about the entity's ability to continue in its present form. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 8 to the financial statements, the Company provided extended warranties at the time of sale in connection with its former roofing business. The estimated costs to satisfy product warranty claims have been accrued, subject to adjustment for actual experience. Although management believes adequate provision for future warranty expenditures is reflected in the accompanying financial statements, the ultimate outcome of the warranty claims against the Company is presently uncertain.

PRICE WATERHOUSE
Boston, Massachusetts
March 24, 1989

SFE TECHNOLOGIES, OCTOBER 29, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders
SFE Technologies
San Fernando, California:

We have audited the accompanying balance sheets of SFE Technologies and subsidiaries as of October 29, 1988, and October 31, 1987, and the related statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended October 29, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SFE Technologies and subsidiaries as of October 29, 1988, and October 31, 1987, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended October 29, 1988, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations and, as discussed in Note 6 of the Notes to Consolidated Financial Statements, is in default on certain of its loan covenants, which, if not renegotiated or waived, raises doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 14 of the Notes to Consolidated Financial Statements, the Company is the subject of various matters including an investigation by the federal government, a lawsuit filed against Orchard Electronics, Inc., and a lawsuit filed against the San Fernando Electric Division. While the Company is currently defending itself in these matters, the ultimate outcome cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements.

/s/ COOPERS & LYBRAND
Los Angeles, California
January 6, 1989

TELECAST, INC., SEPTEMBER 30, 1988

Report of Current Independent Accountants

To the Board of Directors and Stockholders of Telecast, Inc.:

We have audited the accompanying consolidated financial statements of Telecast, Inc. and its subsidiary as of and for the year ended September 30, 1988, listed in the table appearing on page F-1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Telecast, Inc. and its subsidiary as of September 30, 1988, and the results of their operations and their cash flows for the year then ended,in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1, the Company has suffered significant losses in fiscal 1988 and 1987, and has a net capital deficiency of $2,103,173 at September 30, 1988. Unaudited information subsequent to September 30, 1988, indicates that the losses are continuing and that the net capital deficiency is increasing. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result should the Company be unable to attain profitable operations, to obtain additional financing, or otherwise be unable to continue as a going concern.

As discussed in Note 2, the Company is involved in litigation for which the ultimate outcome cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

As discussed in Notes 3 and 5, during fiscal 1988, the Company entered a new business segment by acquiring certain assets which it believes will distinguish it in the pay-per-view distribution industry. While the Company continues in the testing phase with a potential customer, it does not have any signed contracts at this time. The assets are included in the accompanying September 30, 1988, consolidated balance sheet at a net book value of $2,296,000. Recoverability of these assets is uncertain and is dependent upon the Company's ability to successfully launch this new business segment. The accompanying 1988 financial statements do not include any adjustments that might result should the Company be unable to place these assets into service on a profitable basis.

As disclosed in Note 4, in fiscal 1988, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," on a prospective basis.

Price Waterhouse
April 7, 1989
Detroit, Michigan

CMS ENERGY CORPORATION, DECEMBER 31, 1988

Report of Independent Public Accountants

To CMS Energy Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of long-term debt and preferred stock of CMS Energy Corporation (a Michigan corporation) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based upon our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMS Energy Corporation as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company, effective January 1, 1987, changed its method of accounting for income taxes and has given retroactive effect to the change in accounting for plant abandonments in 1988.

As discussed in Notes 1 and 2, Consumers Power Company (Consumers) decided to complete the Midland project as a natural gas-fueled, combined-cycle generating plant and abandoned components of the project unusable in the gas conversion. Consumers is seeking to recover approximately $2.1 billion of original cost in the abandoned facilities from its electric retail customers. The remaining abandoned Midland investment of $64 million is allocable to its wholesale customers. Amounts being sought by Consumers from its retail customers are substantially in excess of amounts recommended by the Michigan Public Service Commission (MPSC) staff. Although some prudency disallowance is probable, Consumers is unable to reasonably estimate the amount of such a disallowance. Further, Consumers believes that it is probable that no return will be allowed on the abandoned costs. The consolidated balance sheet as of December 31, 1988, includes $1.364 billion related to the abandoned Midland project, representing expected future rate relief of a present value basis, assuming full recovery of the original cost of the abandoned facilities over a 15-year period, without a return. Additional losses will be recognized if disallowances of portions of the abandoned Midland investment are ordered or agreed to, or when future losses are probable and reasonably estimable.

As discussed in Note 3, in January 1987, Consumers and Dow announced that they had resolved all litigation between the two companies concerning the Midland Plant and that subsidiaries of the two companies had entered into the MCV Partnership, which was formed to construct and operate the above-noted combined-cycle plant as a cogeneration facility. As of December 31, 1988, the Company's investment in the MCV Partnership and the related assets to be transferred to the MCV Partnership are approximately $172 million and $1.614 billion, respectively. In September 1987, the MCV Partnership requested MPSC approval of a Power Purchase Agreement executed with Consumers. If approved, the Agreement would have provided for an opportunity for full recovery of the Company's investment in the MCV Partnership and the MCV Subordinated Notes to be received by Consumers in exchange for the assets to be transferred. However, in January 1989, the MPSC issued an Opinion and Interim Order (Interim Order) providing lower MCV capacity and capacity rates than requested. The Company believes that the terms of the Interim Order, if not reversed or modified, will necessitate financial restructuring of the MCV Partnership, including renegotiation of the MCV Subordinated Notes and related agreements with the MCV Partnership partners, the underlying MCV Partnership financing, and the Power Purchase Agreement between the MCV Partnership and Consumers. Given the possibility of future capacity sales by MCV to Consumers above and beyond the amounts authorized by the Interim Order, and capacity sales by the MCV to other purchasers and the potential for financial restructuring of the MCV Partnership, the Company cannot at this time determine the extent of impairment, if any, of the assets to be transferred to the MCV Partnership that may result from the Interim Order. To the extent that the probable revenues of the MCV Partnership or the probable proceeds from the required sale of the MCV Subordinated Notes do not support full recovery of the assets to be transferred to the MCV Partnership, the Company would recognize a loss, which could be material. In the absence of renegotiation of certain of the Company's obligations to the MCV Partnership and in the event of inadequate revenue from additional power sales by the MCV, the Company could be called upon to compensate the MCV Partnership for certain inadequacies, which would result in losses which could be material. Further, if Consumers should make purchases from the MCV Partnership in excess of the amounts authorized by the MPSC in the Interim Order, the risk of disallowance by the MPSC for imprudently incurred costs would be borne by Consumers. Such disallowances could be material.

As discussed in Notes 5 and 13, Consumers is involved in numerous legal and administrative proceedings before various courts and governmental agencies, including the MPSC. Because of the present Midland-related uncertainties, management cannot predict whether or not the ultimate resolution of these matters will have a significant impact upon the Company's financial position or results of operations.

As discussed in Note 13, if significant portions of the abandoned Midland project are not recovered through the rate-making process or otherwise, or if probable revenues of the MCV Partnership or probable proceeds from Consumers' sale of the MCV Subordinated Notes do not support full recovery of the MCV investments, or if substantial losses are incurred either to support MCV Partnership revenues, for disallowances of purchases of capacity from the MCV by Consumers, or in connection with other contingencies, the result could be a significant restriction on or elimination of the Company's and Consumers' ability to issue debt or to pay cash dividends on common stock, and a requirement to immediately repay $783 million of Consumers' refinanced debt. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue operating in the normal course.

Arthur Andersen & Co.
Detroit, Michigan
February 20, 1989

GULF STATES UTILITIES COMPANY, DECEMBER 31, 1988

Report of Independent Accountants

To the Shareholders of Gulf States Utilities Company:

We have audited the accompanying consolidated balance sheets of Gulf States Utilities Company and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, cash flows, and changes in capital stock and retained earnings for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulf States Utilities Company and subsidiaries as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As of December 31, 1988 and 1987, the Company has capitalized approximately $3 billion of construction costs related to its River Bend Nuclear Generating Plant and has capitalized, in accordance with regulatory orders, $997 million and $808 million, respectively, of deferred charges representing plant operating and carrying costs incurred subsequent to commercial operation. Without regulatory orders prescribing the deferral and capitalization of such charges, net income for 1988, 1987, and 1986 would have been reduced by $128 million ($1.19 per share), $390 million ($3.61 per share), and $234 million ($2.20 per share), respectively. During 1986, the Company filed requests with regulatory commissions in Texas and Louisiana requesting rate increases for recovery of River Bend construction costs and deferred charges and subsequently was granted increases covering a portion of such costs. As discussed in Note 3, if current regulatory orders are not modified, a significant write-off of capitalized costs associated with River Bend may be required; however, the extent of such write-offs, if any, will not be determinable until appropriate rate proceedings, including court appeals, have been concluded. Management can provide no assurance that the Company will ultimately earn a return on or fully recover its investment in River Bend.

As discussed in Notes 1 and 3, the Company is involved in legal proceedings relating to contractual disputes and rate issues. The ultimate outcome of the proceedings cannot presently be determined. Accordingly, no provision for any liability that may result from the resolution of the proceedings has been made in the accompanying consolidated financial statements.

As discussed in Notes 1 and 3, significant legal proceedings, rate issues and operational contingencies exist which raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 3, in accordance with recently issued statements of the Financial Accounting Standards Board, during 1988 the Company changed its method of accounting for plant abandonments and equity carrying charges.

/s/ COOPERS & LYBRAND
Houston, Texas
February 28, 1989

DISCLAIMER OF OPINION DUE TO GOING CONCERN UNCERTAINTY

COMMONWEALTH SAVINGS ASSOCIATION, JUNE 30, 1988

Report of Independent Public Accountants

To Commonwealth Savings Association:

We have audited the accompanying consolidated statements of financial condition of Commonwealth Savings Association (CSA) (a Texas corporation) and subsidiaries (the Company) as of June

30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for each of the three years in the period ended June 30, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Savings Association and subsidiaries as of June 30, 1987, and the results of their operations and changes in their financial position for each of the two years in the period ended June 30, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the accompanying consolidated financial statements, as of June 30, 1987, CSA did not meet the minimum regulatory capital requirements required by the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation. On September 28, 1987, CSA filed an application for capital forbearance with the Federal Home Loan Bank (FHLB) of Dallas and was granted forbearance through September 30, 1988, subject to certain conditions, by the FHLB of Dallas. Regulatory capital forbearance for the same period was also received from the Texas Savings and Loan Department. As further discussed in Note 2, substantial operating losses have continued during the year ended June 30, 1988, resulting in a stockholders' deficit of $306 million and CSA's regulatory capital being approximately $405 million (unaudited) less than the required minimum regulatory capital. Substantial operating losses are expected to continue for the foreseeable future, further impairing regulatory capital and increasing the stockholders' deficit. Management of the Company is seeking alternatives to resolve the operating losses, the stockholders' deficit, and regulatory capital deficiency, including restructuring the mortgage banking operations, seeking third party capital investments, merger with another entity, and internal cost reductions, among others. To date, management has been unsuccessful in its efforts to resolve the continuing losses, the stockholders' deficit, and regulatory capital deficiency. In addition, as discussed in Note 17, management is unable to express an opinion as to whether pending litigation will have a material, adverse effect on the consolidated financial position of the Company. The magnitude of the continuing operating losses, the stockholders' deficit, and regulatory capital deficiency and the uncertainty of the outcome of litigation in conjunction with the pending expiration of regulatory capital forbearance and management's unsuccessful efforts to resolve the operating losses, the stockholders' deficit, and regulatory capital deficiency indicate that the Company may be unable to continue in its present form. Should the Company be unable to continue in its present form, the Subordinated Note holders and the stockholders may not realize their investments. Management has prepared the 1988 consolidated financial statements in conformity with generally accepted accounting principles assuming that the Company will continue in its present form. Accordingly, the 1988 consolidated financial statements do not include any adjustments, which could be significant, relating to the recoverability of asset-carrying amounts or the amounts of liabilities that might be necessary should the Company be unable to continue in its present form.

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the Company's consolidated financial statements referred to above as of June 30, 1988, and for the year then ended.

ARTHUR ANDERSEN & CO.
Houston, Texas
September 26, 1988

FGMC, INC., SEPTEMBER 30, 1988

Report of Independent Public Accountants

To FGMC, Inc.:

We have audited the accompanying consolidated balance sheets of FGMC, Inc. (a Texas corporation and a wholly owned subsidiary of General Homes Corporation) and subsidiaries (FGMC) as of

September 30, 1987 and 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of FGMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 1986 and 1987 audits provide a reasonable basis for our opinion with respect to the 1986 and 1987 financial statements.

In our opinion, the 1986 and 1987 financial statements referred to above present fairly, in all material respects, the financial position of FGMC, Inc. and subsidiaries as of September 30, 1987, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 1987, in conformity with generally accepted accounting principles.

A substantial portion of FGMC's business consists of originating mortgage loans for purchasers of homes from General Homes Corporation (GHC). As discussed in Note 2, GHC has continued to incur substantial losses from operations. GHC is not in compliance with certain covenants of its credit agreement and has not paid $64.8 million in term debt principal payments. In addition, GHC is in default with respect to its subordinated notes. GHC has implemented operational changes and is attempting to restructure its debt and FGMC's debt. GHC cannot predict the success of any of its operational changes or its attempt to restructure its debt or FGMC's debt. These conditions, among others, raise a substantial doubt about GHC'c and FGMC's ability to continue as going concerns. Until such conditions are alleviated, they also create an uncertainty as to the recoverability of recorded asset amounts and payment terms of liabilities. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles assuming that FGMC will continue as a going concern and accordingly do not include any adjustments that may result from the outcome of these matters.

Because of the significance of the matters discussed in the preceding paragraph, we are unable to express, and we do not express, an opinion on the financial statements as of September 30, 1988, and for the year then ended.

ARTHUR ANDERSEN & CO
Houston, Texas
December 13, 1988

FIRST FEDERAL SAVINGS OF ARKANSAS, F.A., SEPTEMBER 30, 1988

Independent Auditors' Report

The Board of Directors of First Federal Savings of Arkansas, F.A.:

We have audited the accompanying consolidated balance sheets of First Federal Savings of Arkansas, F.A. and its subsidiaries (the "Association") as of September 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Association's management. Our responsibility is to report on these financial statements based on our audits.

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

The accompanying financial statements have been prepared assuming that the Association will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Association's recurring losses from operations, stockholders' deficit, and noncompliance with its regulatory capital requirements raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the possible material effects of the uncertainty referred to in the preceding paragraph, we do not express any opinion on the 1988 consolidated financial statements.

In our opinion, the 1987 and 1986 consolidated financial statements present fairly, in all material respects, the financial position of the Association at September 30, 1987, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 1987, in conformity with generally accepted accounting principles.

/s/ DELOITTE HASKINS & SELLS
January 10, 1989

GENERAL HOMES CORPORATION, SEPTEMBER 30, 1988

Report of Independent Public Accountants

To General Homes Corporation:

We have audited the accompanying consolidated balance sheets of General Homes Corporation (a Texas corporation) and subsidiaries (the Company) as of September 30, 1987 and 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 1986 and 1987 audits provide a reasonable basis for our opinion with respect to the 1986 and 1987 financial statements.

In our opinion, the 1986 and 1987 financial statements referred to above present fairly, in all material respects, the financial position of General Homes Corporation and subsidiaries as of September 30, 1987 and the results of their operations and their cash flows for each of the two years in the period ended September 30, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 2, the Company continued to incur losses from operations and reported a net loss of $130,497,000 for the year ended September 30, 1988 (including chargeoffs of $91,138,000 related to certain assets), and determined in March 1988 that it was necessary to return to profitable operations and to reduce debt in order to continue as a going concern. The Company has implemented operational changes and is attempting to restructure its secured debt and subordinated notes to accomplish the objectives of its financial plan. The Company cannot predict the success of any of its operational changes or any of the elements of its financial plan, including the restructuring of its debt, and the Company may experience continuing losses from operations and insufficient cash flow to service existing debt. In addition, as discussed in Note 9, there are significant pending litigation and claims against the Company. Management believes that such litigation and claims will not materially adversely affect the consolidated financial position of the Company. However, if the Company, in light of its present circumstances, were required to make substantial cash expenditures in connection with such litigation and claims, such expenditures may have a material, adverse effect on the liquidity of the Company. These conditions, among others discussed in Notes 2 and 9, raise a substantial doubt about the Company's ability to continue as a going concern. Until such conditions are alleviated, they also create an uncertainty as to the recoverability of recorded asset amounts and payment terms of liabilities. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles assuming that the Company will continue as a going concern. Accordingly, the 1988 financial statements do not include any adjustments that may result from the outcome of these matters.

Because of the significance of the matters discussed in the preceding paragraph, we are unable to express, and we do not express, an opinion on the financial statements as of September 30, 1988, and for the year then ended.

ARTHUR ANDERSEN & CO.
Houston, Texas
December 13, 1988

GREAT AMERICAN CORPORATION, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Great American Corporation:

We have audited the accompanying consolidated balance sheets of Great American Corporation (a Louisiana Corporation) as of December 31, 1988 and 1987, the related consolidated statements of operations and shareholders' equity for each of the three years in the period ended December 31, 1988, the consolidated statement of cash flows for the years ended December 31, 1988, and the consolidated statements of changes in financial position for each of the two years in the period ended December 31, 1987. These financial statements are the responsibility of the Corporation's management.

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

As discussed in our auditors' report dated March 14, 1988, on the 1987 financial statements, the presence of certain factors relating to non-compliance with both regulatory capital requirements and the terms of a debt agreement indicated that the Corporation might not be able to continue operating in the normal course. As also discussed in our report, these issues created an uncertainty as to the recoverability of assets' carrying amounts.

During 1988, the Corporation's financial difficulties have continued, and its net loss in 1988 was approximately $10 million. This loss has further eroded the Corporation's capital position and its ability to meet debt terms with two major creditors. As discussed in more detail in Note 1 to the financial statements, in March 1989, the Corporation entered into restructured debt terms with its major bank creditor. Discussions with the other creditor continue in an attempt by the Corporation to restructure and satisfy the debt through mutual agreement. Also, as discussed further in Note 1 to the financial statements, on January 5, 1989, the Corporation's major bank subsidiary (AMBANK) filed a request and plan for capital forbearance with the Federal Deposit Insurance Corporation (FDIC), which plan is under consideration by the FDIC. The Corporation's and AMBANK's ability to meet the terms of the revised bank debt agreement and the capital forbearance plan (assuming FDIC approval) is dependent upon a return to a satisfactory level of operating results, which in turn is dependent upon economic conditions in AMBANK's market area and management's ability to favorably deal with the various key risk factors set forth in Note 1 to the financial statements. The accompanying financial statements were prepared by management in conformity with generally accepted accounting principles on a going concern basis and do not reflect any adjustments relating to the recoverability of recorded assets' amounts or the amounts and classifications of liabilities that might be necessary if the Corporation is unable to obtain a restructured agreement with a creditor and meet the terms of the restructured bank debt agreement. The financial statement presentation also assumes that AMBANK will receive capital forbearance, under terms which it can meet.

Because of the significant effects of the uncertainties discussed in the preceding paragraph, we are unable to express an opinion on the financial statements referred to above.

As discussed in Note 2 to the financial statements, the Corporation, as required by generally accepted accounting principles, has presented a statement of cash flows for the year ended December 31, 1988, in place of a statement of changes in financial position.

ARTHUR ANDERSEN & CO.
New Orleans, Louisiana
March 14, 1989

NATIONAL BANCSHARES CORPORATION OF TEXAS, DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors and Shareholders
National Bancshares Corporation of Texas:

We have audited the accompanying consolidated balance sheets of National Bancshares Corporation of Texas and Subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to report on these consolidated financial statements based on the results of our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Bancshares Corporation of Texas and Subsidiaries at December 31, 1987, and the results of their operations and their cash flows for the two years then ended, in conformity with generally accepted accounting principles.

The accompanying 1987 and 1988 consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Corporation has experienced operating losses for the years ended December 31, 1988, 1987, and 1986. As a result of the 1987 and 1986 losses and in anticipation of continuing operating losses during 1988, the Corporation sought additional capital in early 1988 through a proposed regulatory-assisted merger. The accompanying 1987 consolidated financial statements do not include any adjustments relating to the recoverability of asset-carrying values that might be necessary should the Corporation obtain additional capital, either through merger or on an independent basis, or be unable to obtain adequate additional capital.

As further discussed in Note 2, losses continued and escalated in 1988. At December 31, 1988, the Corporation's total and primary capital ratios were 2.25 percent, and 1.16 percent, respectively. These ratios were below the regulatory minimum guidelines of 6.0 percent and 5.5 percent respectively, which raises substantial doubt about the Corporation's ability to continue as a going concern. Should the Corporation's capital remain below the amount required for regulatory purposes, the Corporation may be subject to legal or administrative actions by regulatory authorities. The Corporation's ability to continue as a going concern is dependent on either assistance from the Federal Deposit Insurance Corporation and/or a recapitalization with a new investor. The accompanying 1988 consolidated financial statements do not include any adjustments relating to the recoverability of asset-carrying values that might be necessary should the Corporation obtain additional capital, either through merger or on an independent basis, or be unable to obtain adequate additional capital. Any such adjustments relating to a restructuring of existing shareholder interests as the result of a merger or obtaining additional capital on an independent basis would depend upon the ultimate structure of the actual transaction, which cannot be predicted at this time.

As further discussed in Note 9, on January 30, 1989, the Board of Directors of the Corporation determined not to make on February 1, 1989, the scheduled $1,250,000 interest payment on its $25.0 million convertible subordinated debentures. Under the terms of the governing indenture, this nonpayment of interest became an "Event of Default" on March 3, 1989, entitling the Trustee under the indenture to pursue certain remedies set forth in the indenture. In addition, the indenture provides that the holders of a majority in aggregate principal amount of the debentures have the right to direct the Trustee with regard to the time, method, and place of conducting any proceeding for any remedy available to the Trustee. Remedies specified in the indenture include acceleration of the payment of the entire principal amount of the debentures and institution of appropriate legal proceedings to enforce the covenants and agreements of the Corporation as set forth in the indenture. The Corporation has not been notified what, if any, remedy the Trustee intends to pursue. Should the debenture holders require performance under such obligations, the Corporation's ability to continue as a going concern is dependent on the forbearance of the debenture holders or the Corporation's obtaining the resources necessary to meet any performance obligations. The accompanying 1988 consolidated financial statements do not include any adjustments relating to the recoverability of asset-carrying values that might be necessary should the Corporation be unable to obtain forbearance from the debenture holders or long-term financing to support any performance obligations.

As discussed in Note 14 to the consolidated financial statements, the Corporation and certain of its subsidiary banks are defendants in numerous lender liability lawsuits. The ultimate outcome of this litigation cannot presently be determined. Accordingly, no liability and loss, if any, that may result upon adjudication have been recognized in the accompanying consolidated financial statements.

Because of the uncertainties referred to in the three preceding paragraphs, we are unable to express, and we do not express, an opinion on the accompanying consolidated financial statements as of and for the year ended December 31, 1988.

PEAT MARWICK MAIN & CO.
January 31, 1989, except for Notes 2, 9, and 14, as to which the date is March 29, 1989
San Antonio, Texas

PENGO INDUSTRIES, INC., SEPTEMBER 30, 1988

Independent Auditors' Report

Pengo Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Pengo Industries, Inc. (in reorganization under Chapter 11 of the Federal Bankruptcy Code since December 21, 1988—see Note 14) as of September 30, 1988 and 1987, and the related consolidated statements of operations and stockholders' equity (deficiency) for each of the three years ended September 30, 1988, of cash flows for the year ended September 30, 1988, and of changes in financial position for each of the two years ended September 30, 1987. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to report on these financial statements based on our audits.

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

As described in Note 2 to the financial statements, the accompanying consolidated financial statements have been prepared on a going-concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business. Such financial statements do not purport to reflect or provide for the consequences of the proceedings under the Federal Bankruptcy Code. In particular, such financial statements do not purport to show (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities, (b) as to liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (c) as to shareholder accounts, the effect of any changes that may be made in the capitalization of the Company, or (d) as to operations, the effect of any changes that may be made in its business. The outcome of these matters is not presently determinable. As discussed in Notes 2, 13, and 14 to the financial statements, the Company's significant debt burden, net stockholders' capital deficiency, and bankruptcy filing raise substantial doubt about its ability to continue as a going concern. Management has not yet formulated a plan to be submitted to the bankruptcy court within the statutory period. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the possible material effects of the uncertainty referred to in the preceding paragraph, we do not express any opinion on the financial statements for 1988.

In our opinion, the 1987 financial statements present fairly, in all material respects, the financial position of the Company at September 30, 1987, the results of its operations, and its changes in financial position for each of the two years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1988 the Company presented a statement of cash flows in place of a statement of changes in financial position to conform with Statement of Financial Accounting Standards No. 95.

Our audits also comprehended the Supplemental Schedules V, VI, and VII for each of the two years in the period ended September 30, 1987. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS
Fort Worth, Texas
December 21, 1988

IX

SCOPE LIMITATION

Occasionally, an auditor encounters restrictions on the scope of his or her audit. They may be imposed by the client or by circumstances, such as inadequate accounting records or an inability to obtain sufficient competent evidence.

SAS No. 58 permits an auditor to express a qualified opinion or disclaim an opinion because of a scope limitation in certain circumstances. If an opinion is disclaimed or qualified, a description of the possible effects on the financial statements must be made in the auditor's report.

Five examples of auditors' reports that disclose a restriction on the scope of the audit are presented below. All of the reports contain a disclaimer of opinion. The disclaimer may be on only one financial statement or on all the financial statements presented. Some of the examples also contain departures from the standard report illustrated in other chapters.

AERO SERVICES INTERNATIONAL, INC., SEPTEMBER 30, 1988

Independent Auditor's Report

To the Stockholders and Board of Directors
Aero Services International, Inc.:

We have audited the consolidated balance sheet of Aero Services International, Inc. and subsidiaries as of September 30, 1988, and were engaged to audit the consolidated statements of operations, cash flows, changes in stockholders' equity, and the related financial statement schedules V, VI, and VIII for the year ended September 30, 1988. We were also engaged to audit the consolidated balance sheet as of September 30, 1987, and the consolidated statements of operations, cash flows, changes in stockholders' equity, and the related financial statement schedules V, VI, and VIII for the year then ended. These financial statements are the responsibility of the Company's management. We did not audit the Company's consolidated financial statements and the related financial statement schedules for the year ended September 30, 1986, either as originally presented or as restated, and accordingly, we express no opinion or any other form of assurance on them.

We conducted our audit of the consolidated balance sheet as of September 30, 1988, in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the consolidated balance sheet as of September 30, 1988, provides a reasonable basis for our opinion.

Because of major inadequacies in the Company's accounting records and systems of internal control during 1988 and 1987, it was not practicable to extend our auditing procedures to the extent necessary to enable us to express an opinion on the balance sheet as of September 30, 1987, and on the results of operations, cash flows, and changes in stockholders' equity, and the related financial statement schedules for the years ended September 30, 1988 and 1987. In addition, we have not applied auditing tests and procedures to the balance sheet amounts as of October 1, 1986, since that date was prior to our appointment as auditors for the Company, and we were unable to satisfy ourselves regarding the balance sheet amounts at that date by means of other auditing procedures. Further, we were unable to satisfy ourselves as to the consistency of application of generally accepted accounting principles.

As further discussed in Notes A and K to the consolidated financial statements and due to major inadequacies in the Company's accounting records and systems of internal control, significant adjustments were recorded to the Company's books and records in fiscal 1988 and 1987. Such adjustments included write-downs of inventory, property and equipment, accounts receivable, and other asset items and an increase in accounts payable and accrued expenses. Due to the above, the Company is unable to identify the fiscal years in which these write-downs should have occurred and consequently has recorded them in the fiscal year in which they were identified.

Because of the matters discussed in the preceding two paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of Aero Services International, Inc. and subsidiaries as of September 30, 1987, or the results of its operations or its cash flows, the changes in its stockholders' equity, or its financial statement schedules V, VI, and VIII for the years ended September 30, 1988 and 1987.

In our opinion, the consolidated balance sheet for the year ended September 30, 1988, presents fairly, in all material respects, the financial position of Aero Services International, Inc. and subsidiaries as of September 30, 1988, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND
Newark, New Jersey
December 27, 1988

CRAZY EDDIE, INC., FEBRUARY 26, 1988

Independent Auditor's Report

Board of Directors and Stockholders
Crazy Eddie, Inc.
Edison, New Jersey:

We have audited the accompanying consolidated balance sheets of Crazy Eddie, Inc. and subsidiaries as of February 26, 1989, and February 28, 1988, and the related statements of operations, changes in (deficiency in net assets) stockholders' equity, and cash flows for the year ended February 26, 1989, and were engaged to audit the related consolidated statements of operations, changes in (deficiency in net assets) stockholders' equity, and changes in financial position for the year ended February 28, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Crazy Eddie, Inc. and subsidiaries as of March 1, 1987 were audited by other auditors, whose report dated April 28, 1987 (except for Note 15 which is as of June 12, 1987), expressed an unqualified opinion on those statements. However, as explained in Note 2, their report is not included herein.

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

During fiscal 1988, new management of the Company recorded certain significant charges to operations, portions of which it believes relate to prior periods. It is impractical for the Company to determine the extent to which these charges relate to prior periods and the extent to which generally accepted accounting principles were applied in the generation of financial statements for periods prior to November 29, 1987, and therefore, management is unable to represent its responsibility for financial statements prior to November 29, 1987. Accordingly, we were unable to apply generally accepted auditing standards with respect thereto, and the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated statements of operations, changes in (deficiency in assets) stockholders' equity, and changes in financial position for the year ended February 28, 1988.

In our opinion, the consolidated balance sheets of Crazy Eddie, Inc. and subsidiaries as of February 26, 1989, and February 28, 1988, and the related consolidated statements of operations, changes in (deficiency in assets) stockholders' equity and cash flows for the year ended February 26, 1989, present fairly, in all material respects, the financial position of Crazy Eddie, Inc. and subsidiaries as of February 26, 1989, and February 28, 1988, and the results of their operations and their cash flows for the year ended February 26, 1989, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company has provided $13,815,000 in reserves for estimated expenses and losses to be incurred in connection with the closing of certain stores subsequent to the fiscal year ended February 26, 1989. The Company is unable to determine at this time whether the cancellation or disposition of such store leases will result in any material liability to the Company. It is the opinion of management that the provision represents a reasonable estimation of the expenses and losses associated with the store closings; however, the ultimate amount of expenses and losses to be incurred is not presently determinable.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced significant recurring losses from operations, has a deficiency in net assets, has a working capital deficiency, and is involved in significant litigation. Additionally, the Company has experienced serious liquidity problems subsequent to February 26, 1989, in part due to a precipitous decline in sales, the continuation of which will shortly exhaust the Company's cash availability. Absent a prompt solution to its current cash crisis, the Company will be forced to seek protection under the federal bankruptcy laws. All of these matters raise substantial doubt about its ability to continue as a going concern. Management's plans to address these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 1 to the consolidated financial statements, the Company has presented a statement of cash flows for the year ended February 26, 1989, and statements of changes in financial position for the years ended February 28, 1988, and March 1, 1987.

/s/ Touche Ross & Co., Certified Public Accountants
New York, New York
May 26, 1989

ND RESOURCES, INC., JUNE 30, 1988

Independent Auditor's Report

Shareholders and Board of Directors
ND Resources, Inc.
Castle Rock, Colorado:

We were engaged to audit the accompanying consolidated balance sheets of ND Resources, Inc. (the Company) and its subsidiaries as of June 30, 1988 and 1987, and the related consolidated statements of operations and shareholders' equity for the years then ended; cash flows for the year ended June 30, 1988; changes in financial position for the year ended June 30, 1987; and the financial statement schedules as listed in Item 14(A) of the Form 10-K. These financial statements are the responsibility of the Company's management. The financial statements of the Company for the year ended June 30, 1986, were examined by other auditors whose report, dated September 27, 1986, expressed a disclaimer of opinion on those financial statements.

As further described in Note C to the consolidated financial statements, during 1987 the Company acquired an equity interest in Atoka Gas Gathering Systems, Inc. (Atoka), a gas transportation pipeline company, from its majority shareholder. The majority shareholder has been named as a codefendant in a suit filed by Texaco Inc., which contends false and invalid ownership claims resulting from the majority shareholder's acquisition of Atoka's outstanding common stock. The Company has recorded the acquisition in the accompanying consolidated June 30, 1988 and 1987, balance sheets at $100,000; however, the accompanying consolidated financial statements do not reflect any results of operations, cash flows, changes in financial position, or any other information that may be necessary upon the ultimate determination of the Company's ownership interest in Atoka. The final accounting for the acquisition is dependent upon the ultimate outcome of this litigation, which is uncertain at this time.

As further discussed in Note D, the Company has 8,000,000 shares of convertible preferred stock and 10,000,000 shares of common stock of a related entity recorded at no cost because evidence to support the recorded value is not available. Also, the Company's records and the related entity's records do not permit the application of other auditing procedures.

Because of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated balance sheets of the Company as of June 30, 1988 and 1987, and the related consolidated statements of operations and shareholders' equity for the years then ended; cash flows for the year ended June 30, 1988; changes in financial position for the year ended June 30, 1987; and the financial statement schedules as listed in Item 14(A) of the Form 10-K.

The Company has complied with Statement of Financial Accounting Standards Number 95 (Statement) and presented a consolidated statement of cash flows for the year ended June 30, 1988. However, restatement for the years ended June 30, 1987 and 1986, is not required by the Statement.

As further described in Note J to the consolidated financial statements, a significant portion of the Company's assets consist of coal properties, whose operations were suspended due to the low market price for coal, and investments in mineral rights and exploration costs. The ultimate realization of the carrying value of these assets is dependent upon maintenance of a coal price at a level adequate to justify the resumption of profitable operations or the profitable sale of such assets, of which either occurrence is uncertain at this time.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note J to the consolidated financial statements, the Company has suffered recurring losses from operations and has emerged from Chapter 11 Bankruptcy proceedings. These items raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note J. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mitchell, Londer & Company
December 9, 1988, except for Note H, as to which the date is January 11, 1989
Denver, Colorado

S.E. NICHOLS INC., JANUARY 28, 1989

Independent Auditor's Report

Board of Directors
S.E. Nichols Inc.
New York, New York:

We have audited the accompanying consolidated balance sheet of S.E. Nichols Inc. and Subsidiaries as of January 30, 1988, and the related consolidated statements of income (loss), shareholders' equity, and cash flows for each of the years in the two-year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statements as of January 30, 1988, and for the year then ended provides a reasonable basis for our opinion.

As more fully discussed in Note 15 to the consolidated financial statements, during fiscal 1988, in the course of implementing refinements in its data processing systems, the Company discovered a discrepancy between its general ledger and accounts payable subsidiary ledger. After a comprehensive review by management of this matter, it was determined that this discrepancy amounted to approximately $5,500,000. While detailed records no longer exist, Company management believes that the discrepancy arose in fiscal 1986, during the conversion from a service bureau facility to an in-house computer system. The Company has restated its fiscal 1987 consolidated financial statements to record the effects of this discrepancy and another matter discussed in Note 15, which reduced net income as originally reported by an aggregate of $851,000 ($.19 per share) in fiscal 1987. However, the Company has been unable to provide us with sufficient evidence to establish that the approximate $5,500,000 discrepancy arose solely in fiscal 1986, and we have been unable to otherwise satisfy ourselves as to the apportionment of the discrepancy between fiscal 1987 and 1986, although we are satisfied as to the aggregate amount, and that it first arose sometime during those two fiscal years.

Because we have been unable to satisfy ourselves as to the apportionment of the discrepancy between fiscal 1987 and 1986, as discussed above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying restated consolidated statements of income, shareholders' equity, and cash flows for fiscal 1987.

In our opinion, the accompanying consolidated balance sheet as of January 30, 1988, and the consolidated statements of loss, shareholders' equity, and cash flows for the year then ended present fairly, in all material respects, the consolidated financial position of S.E. Nichols Inc. and Subsidiaries as of January 30, 1988, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

LAVENTHOL & HORWATH
New York, New York 10022
May 5, 1988, January 16, 1989 as to Note 15

THORTEC INTERNATIONAL, INC., OCTOBER 31, 1987

Reports of Independent Public Accountants

To the Board of Directors and Shareholders
Thortec International, Inc.:

We have audited the accompanying consolidated balance sheet of Thortec International, Inc. and subsidiaries as of October 31, 1987. The consolidated balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated balance sheet based on our audit.

We conducted our audit of the consolidated balance sheet as of October 31, 1987, in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the aforementioned balance sheet. We believe that our audit provides a reasonable basis for our opinion on the consolidated balance sheet as of October 31, 1987.

We were also engaged to audit the accompanying consolidated statements of operations, changes in financial position, and changes in shareholders' equity for the year ended October 31, 1987. These financial statements are also the responsibility of the Company's management. During our audit we became aware these financial statements included significant costs and expenses (including the measurement of the cumulative effect of accounting changes) which may more properly relate to operations of prior periods. For a number of reasons, including non-availability of the prior auditors' working papers, lack of certain accounting data, and change in accounting personnel, it was not practicable for us to determine what portion of these costs and expenses relate to periods prior to the year ended October 31, 1987. To the extent that these costs and expenses should be charged to prior periods, the 1987 operating results would be improved. Since we are unable to apply auditing procedures to determine whether or not there are material charges to operations for the year ended October 31, 1987, which, in accordance with generally accepted accounting principles, should be charged to prior periods, the scope of our work was not sufficient to enable us to express, and we do not express, any opinion on the financial statements referred to previously in this paragraph.

In our opinion, the consolidated balance sheet presents fairly, in all material respects, the consolidated financial position of Thortec International, Inc. and subsidiaries as of October 31, 1987, in conformity with generally accepted accounting principles.

As more fully described in Notes 2 and 8 to the consolidated financial statements, during 1987 the Company changed its method of accounting for revenue relating to precontract activity and capitalization of new marketing office costs, and adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes."

As discussed in Note 10, the Company is a defendant in class action lawsuits alleging securities law violations. The plaintiffs seek unspecified damages. Management cannot at this time predict the outcome of these lawsuits. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

COOPERS & LYBRAND
San Francisco, California
August 12, 1988

X

DEPARTURES FROM GAAP

If the auditor believes that the financial statements depart from GAAP, he or she must express either a qualified or adverse opinion in the report (see SAS No. 58, paragraph 49). In a qualified opinion, the auditor states that the financial statements conform with GAAP except for the effects of the matter to which the qualification relates. In an adverse opinion, the auditor states that the financial statements do not conform with GAAP. An explanatory paragraph is required in the report to explain the basis for the auditor's opinion and the principal effects on the financial statements. The explanatory paragraph may refer to a note to the financial statements that discloses the effects.

Five examples of auditors' reports that contain qualified opinions concerning departures from GAAP are presented below. Some of the examples also contain departures from the standard report illustrated in other chapters.

BIOPLASTY, INC., JULY 31, 1988

To the Board of Directors and Shareholders of Bioplasty, Inc.:

We have audited the accompanying consolidated balance sheet of Bioplasty, Inc. (a Minnesota corporation) and Subsidiaries as of July 31, 1988 and 1987, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended July 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Note 2 to the financial statements, the Company has presented the financial position and results of operations of its silicone implant business as discontinued operations. In our opinion, generally accepted accounting principles do not permit the presentation of this business as a discontinued operation. Accordingly, if this business were included in continuing operations, the results of operations would be presented as follows:

	Year Ended July 31,		
	1988	1987	1986
Income (loss) from continuing operations before extraordinary item	$ (273,418)	$ (307,127)	$(464,862)
Net loss from discontinued operations	(53,168)	(45,293)	(634,877)
Net income (loss) per common and common equivalent share			
From continuing operations	(.11)	(.13)	(.21)
From discontinued operations	(.02)	(.02)	(.28)

In our opinion, except for the effects of presenting the results of operations of the silicone implant business as discontinued operations as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bioplasty, Inc. and Subsidiaries as of July 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 31, 1988, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON
Minneapolis, Minnesota
October 12, 1988

CANON INC., DECEMBER 31, 1988

Independent Auditors' Report

The Board of Directors
Canon Inc.:

We have audited the accompanying consolidated balance sheets (expressed in yen) of Canon Inc. and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, surplus, and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

The segment information required to be disclosed in financial statements under United States generally accepted accounting principles is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities and Exchange Act filing with the United States Securities and Exchange Commission.

In our opinion, except that the omission of the segment information results in an incomplete presentation as explained in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Canon Inc. and subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with United States generally accepted accounting principles.

The accompanying consolidated financial statements have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation, and in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 of the notes to consolidated financial statements.

/s/ PEAT MARWICK MINATO
Tokyo, Japan
February 17, 1989

PIONEER ELECTRONIC CORPORATION, SEPTEMBER 30, 1988

Report of Independent Accountants

To the Board of Directors and Shareholders of Pioneer Electronic Corporation:

We have audited the accompanying consolidated balance sheets of Pioneer Electronic Corporation and its consolidated subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended September 30, 1988, stated in yen. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The company's consolidated financial statements do not disclose segment information for each of the three years in the period ended September 30, 1988. In our opinion, disclosure of segment information concerning the company's foreign operations and export sales is required by accounting principles generally accepted in the United States of America for a complete presentation of consolidated financial statements.

In our opinion, except for the omission of segment information as discussed in the preceding paragraph, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Pioneer Electronic Corporation and its consolidated subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with accounting principles generally accepted in the United States of America.

/s/ PRICE WATERHOUSE

THE SUMITOMO BANK OF CALIFORNIA, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and Board of Directors of The Sumitomo Bank of California:

We have audited the accompanying balance sheets of The Sumitomo Bank of California (a California banking corporation) as of December 31, 1988 and 1987, and the related statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained in Note 2 to the financial statements, in 1981 and 1977 bank regulatory agencies required the Bank to charge directly to surplus the excess of the purchase price paid over the value of the net assets acquired (goodwill) in two bank acquisitions. Under generally accepted accounting principles, such excess should be recorded as an asset and amortized to income over not more than 40 years.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Sumitomo Bank of California as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Bank, as required by generally accepted accounting principles, has adopted a new method of accounting for loan fees.

/s/ ARTHUR ANDERSEN & CO.
San Francisco, California
January 17, 1989

UNION BANK, DECEMBER 31, 1988

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Union Bank (formerly California First Bank):

We have audited the accompanying consolidated balance sheet of Union Bank (formerly California First Bank, a California state chartered bank, and a 76.5%-owned subsidiary of The Bank of Tokyo, Ltd.) (the Bank) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income for the three years ended December 31, 1988, cash flows for the year ended December 31, 1988, changes in financial position for the two years ended December 31, 1987, and changes in shareholders' equity for the three years ended December 31, 1988. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Notes 2 and 3 to the financial statements, the Bank has charged goodwill and certain other intangible assets, acquired in various acquisitions, directly to shareholders' equity. Generally accepted accounting principles require that these intangibles be recorded as assets and amortized to expense over future periods.

In our opinion, except for the effects of the accounting treatment for intangible assets on the consolidated financial statements, as discussed in the preceding paragraph and more fully in Notes 2 and 3 to the financial statements, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Union Bank as of December 31, 1988 and 1987, the results of its operations for the three years ended December 31, 1988, its cash flows for the year ended December 31, 1988, and the changes in its financial position for each of the two years ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Bank, as required by generally accepted accounting principles, has presented a statement of cash flows for the year ended December 31, 1988, in place of a statement of changes in financial position.

/s/ ARTHUR ANDERSEN & CO.
San Francisco, California
February 6, 1989

XI

AN UNQUALIFIED OPINION THAT INCLUDES A DEPARTURE FROM AN AUTHORITATIVE ACCOUNTING PRINCIPLE

Financial statements may depart from an accounting principle promulgated by a body designated by the Council of the AICPA to establish accounting principles, and the auditor may be able to demonstrate that the statements would have been misleading without the departure. If so, Rule 203 of the Code of Professional Conduct of the AICPA permits the auditor to express an opinion that the financial statements are prepared in conformity with GAAP. A report in which such an opinion is expressed must describe the departure, its approximate effects, if practicable, and give reasons why compliance with the principle would have resulted in misleading statements.

One example of an auditor's report that contains such a departure from an authoritative accounting principle is presented below.

OAK INDUSTRIES INC., DECEMBER 31, 1988

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Oak Industries Inc.:

We have audited the consolidated balance sheets of Oak Industries Inc. and Subsidiaries (the "Company") as of December 31, 1988 and 1987, and the related consolidated statements of operations, stockholders' investment, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 3, in May 1987, the Company exchanged shares of its common stock for $5,060,000 of its outstanding public debt. The fair value of the common stock issued exceeded the carrying amount of the debt by $466,000, which has been shown as an extraordinary loss in the 1987 statement of operations. Because a portion of the debt exchanged was convertible debt, a literal application of Statement of Financial Accounting Standards No. 84, "Induced Conversions of Convertible Debt," would have resulted in a further reduction in net income of $3,611,000, which would have been offset by a corresponding $3,611,000 credit to additional paid-in capital; accordingly, there would have been no net effect on stockholders' investment. In the opinion of Company management, with which we agree, a literal application of accounting literature would have resulted in misleading financial statements that do not properly portray the economic consequences of the exchange.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oak Industries Inc. and Subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND
San Diego, California
February 10, 1989

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: corporate annual reports, governmental units, and 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 collectively. Each file for a single year 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 indicates a wild card) to appear within five words of either **METHOD** or **ACCOUNTING**.

However, a report that discloses an accounting change without using the word **CHANGE** can be difficult to find. For example, the report might say, "Since 1986, we account for. . . . ," or, "Before 1985, we accounted for. . . ." Both methods of disclosure imply that there has been a change in the method of accounting, but neither employs any form of the word change.

Members of the staff at the AICPA index the notes to make it easier to find examples like this one. A CPA reads each of the notes to be entered into the data base, identifying accounting concepts contained within it. These concepts are then indexed by adding acronym(s), called descriptors, to the beginning of each note. When the report is entered into the data base, the acronym becomes part of the note. (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 identified 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 easier with experience. To provide new users with a quick start, the AICPA offers 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, which can be reached at 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

This search frame can be used to find auditors' reports based on the new standard report:

REPRT (AUDIT)

The frame instructs the computer to present auditors' reports that contain the word "audit(s)." Virtually all the reports presented under the frame would be auditors' reports based on the new standard report, because the old standard report does not contain the word "audit(s)." Additional words or descriptors can be included within the parentheses to restrict the presentation to specific kinds of auditors' reports based on the new standard report. Under that approach, the search frames presented below were used to find the auditors' reports included in each chapter of this survey. Each frame incorporates a descriptor that finds reports departing from the standard report in response to a specific situation. The preceding search frames can be used by readers of this survey to find examples not presented in the survey.

CHAPTER II:

REPRT (AUDIT W/SEG CONST) (change in accounting principles)

CHAPTER III:

REPRT (AUDIT W/SEG RELYAUD) (opinion based in part on the report of another auditor)

CHAPTER IV:

REPRT (AUDIT W/SEG CHGAUD) (change of principal auditors)

CHAPTER V:

REPRT (AUDIT W/SEG INFDIS) (emphasis of a matter)

CHAPTER VI:

REPRT (AUDIT W/SEG CHGOP) (change of opinion)

CHAPTER VII:

REPRT (AUDIT W/SEG CONTG) (an uncertainty about future events, including an uncertainty about the entity's ability to continue as a going concern not caused by a scope limitation)

CHAPTER VIII:

REPRT (AUDIT W/SEG CONTG W/SEG DISCL) (an uncertainty of the kind described under chapter VII that results in a disclaimer of opinion)

CHAPTER IX:

REPRT (AUDIT W/SEG SCOP) (a scope limitation)

REPRT (AUDIT W/SEG SCOP W/SEG DISCL) (a scope limitation that results in a disclaimer of opinion)

CHAPTER X:

REPRT (AUDIT W/SEG GAAP) (a belief that the financial statements do not conform with GAAP, resulting in a qualified opinion)

CHAPTER XI:

REPRT (AUDIT W/SEG ADVER) (a belief that the financial statements do not conform with GAAP, resulting in an adverse opinion)

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
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

Descriptor	Concept
DEFERC	Deferred charges or credits; negative goodwill
DIF	Disagreement between registrant and auditor
DISCOP	Discontinued operations disclosed within a footnote; the discontinued operation is presented as a separate segment in the income statement
DISCOPNSG	Discontinued operations disclosed within a footnote; 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 and 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
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

Descriptor	**Concept**
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 of prior year's 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 another 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; President's Council on Integrity and Efficiency: State Network Block Grants.

Just as search frames can be used to obtain illustrations of specific kinds of accounting practices 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 matters from the NAARS literature file. The following search frame was used to obtain currently effective, authoritative guidance on preparing auditors' reports that depart from the new standard auditors' report, which is the subject of this survey:

AUDITOR W/5 REPORT

The frame instructs the computer to list items of guidance that contain the word "auditor('s)" within five words of the word "report." The following items were obtained from the search:

AICPA STATEMENT ON AUDITING STANDARDS

Statement on Auditing Standards (SAS) No. 58 (*AICPA Professional Standards*, Vol. 1. AU Section 508), "Reports on Audited Financial Statements"

> This is the principal source of guidance for this survey. AU Section 9508 contains interpretations of that statement.

SAS No. 59, *AICPA Professional Standards*, Vol. 1, Section 341, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern"

> It discusses the auditor's evaluation of such ability and his or her response to a doubt about that ability.

SAS No. 62, *AICPA Professional Standards*, Vol. 1, Section 410, "The Meaning of 'Present Fairly in Conformity With Generally Accepted Accounting Principles' in the Independent Auditor's Report"

> It specifies the sources of generally accepted accounting principles. It is clarified by Section 9410, "Adherence to Generally Accepted Accounting Principles: Auditing Interpretations of AU Section 410."

SAS No. 43, *AICPA Professional Standards*, Vol. 1, Section 420, "Consistency of Application of Generally Accepted Accounting Principles"

> It discusses the auditor's response to a change in GAAP. It is clarified by Section 9420, "Consistency of Application of Generally Accepted Accounting Principles: Auditing Interpretations of AU Section 420."

SAS No. 32, *AICPA Professional Standards*, Vol. 1, Section 431, "Adequacy of Disclosure in Financial Statements"

> It discusses the auditor's evaluation of such adequacy and his or her response to a perceived inadequacy.

SAS No. 21, *AICPA Professional Standards*, Vol. 1, Section 435, "Segment Information"

> It discusses the auditor's response to a perceived departure from FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise."

SAS No. 29, *AICPA Professional Standards*, Vol. 1, Section 530, "Dating of the Independent Auditor's Report"

> It discusses how the auditor should determine the date presented on his or her report.

SAS No. 51, *AICPA Professional Standards*, Vol. 1, Section 534, "Reporting on Financial Statements Prepared for Use in Other Countries"

> It discusses the application of the standard report to financial statements prepared under accounting principles used in foreign countries.

SAS No. 1, *AICPA Professional Standards,* Vol. 1, Section 543, "Part of Examination Made by Other Independent Auditors"

It discusses the auditor's response to that kind of examination. It is clarified by Section 9543, "Part of Examination Made by Other Auditors: Auditing Interpretations of AU Section 543."

SAS No. 14, *AICPA Professional Standards,* Vol. 1, Section 544, "Lack of Conformity With Generally Accepted Accounting Principles"

It discusses the auditor's response to a perceived departure from GAAP. It is clarified by Section 9544, "Lack of Conformity With Generally Accepted Accounting Principles: Auditing Interpretations of AU Section 544."

SAS No. 12, *AICPA Professional Standards,* Vol. 1, Section 560, "Subsequent Events"

It discusses the auditor's response to the disclosure in the financial statements of events occurring subsequent to the current balance sheet date.

SAS No. 1, *AICPA Professional Standards,* Vol. 1, Section 561, "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report"

It discusses the auditor's response to the discovery after the date of his or her report of facts that may have existed at that date and that might have affected the report had they been known to the auditor.

TECHNICAL PRACTICE AIDS

The items listed below are inquiries to and replies from the AICPA Technical Information Service, published in *Technical Practice Aids,* Vol. 1.

Section 9311, "Effect on Auditor's Opinion of Failure to Record Liability"

It discusses whether a disclaimer of opinion is appropriate if the entity fails to record a liability.

Section 9322, "Disclosure of Potential Tax Liability of Uncertain Amount"

It discusses the auditor's response to such a liability.

Section 9323, "Litigation of Uncertain Effect on Financial Statements"

It discusses the auditor's response to such litigation.

Section 9325, "Value of Land Subject to Change Based on Rezoning"

It discusses the auditor's response to the statement of such a value for land.

Section 9331, "Failure to Remit Withholding Taxes in Subsequent Period"

It discusses the auditor's response to such a failure by the entity.

Section 9393, "Effect on Auditor's Opinion of Trustee's Management of Investment Funds"

It discusses the auditor's response to such management by the trustee of a client that is a municipal school building corporation.

Section 9395, "Disclosure of Economic Dependency"

It discusses the auditor's response to a situation in which the entity owes a substantial amount to its major supplier.

Section 9412, ''Going Concern Assumption for Venture with Limited Life''

It discusses the issuance of an audit report on such a venture.

Section 9414, ''Opinion on Balance Sheet with Disclaimer on Income Statement''

It discusses the appropriateness of such a combination.

Section 9413, ''Classification of Certain Callable Obligations''

It discusses the auditor's response to a violation of a debt agreement affecting the classification of the liability on the balance sheet.

Section 9431, ''Use of Successor Firm Name in Signing Registration Statement''

It discusses the name the auditor should use in a report on financial statements covering a time during which the name has been changed.

Section 9432, ''Reporting on Companies With Different Fiscal Years''

It discusses the auditor's response to financial statements with periods ending on dates on which inventories were not observed or receivables confirmed.

FINANCIAL REPORT SURVEYS*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**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)

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